

# Fundamental and Role ESG in Islamic Finance and Business: A Literature Review and Content Analysis

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## Abstract

*Corporations, including Islamic finance and business, encounter challenges regarding governance, environmental, and social issues. Given the significance of ESG in Islamic finance and business, it is imperative to analyze its implementation and its compatibility with Islamic principles. The study tries to carry out the detail ESG in Islamic fundamental and elaborate the contribution ESG for Islamic Finance and Business. The current research adopt hybrid approach combining bibliometric and content analysis with 513 articles from scopus databesd. By using VOSviewer and content analysis the study findings that there is compatibility between Islamic values and ESG, and Islam has always placed an emphasis on sustainability with the exception of those pertaining to usury, maysir, and gharar. The success of ESG concept bring Islamic finance and business satisfy environmental and financial outcomes. This study discovered extensive research on the implementation of Environmental, Social, and Governance (ESG) principles in Islamic finance and business. The implications of the study, Islamic financial institutions and Islamic business can direct their attention to expanding the idea of sustainable financing and product environmentally friendly.*

**Keywords:** Islamic finance and business, ESG, Fundamental, Roles

## INTRODUCTION

Global warming, also referred to as climate change, is currently a significant preoccupation for governments worldwide. The challenges the worlds curently is catastrophic calamities and unpredictable climatic patterns, that is the consequences of extensive global warming. The societal issue of the disconnect between industry and society, coupled with the significant absence of transparency within businesses, suggests that the adoption of ESGs (environmental, social, and governance) by firms is unavoidable.

ESG is a concept that emphasizes business performance beyond just profit, taking into account the impact on the environment, society, and governance. According to one of the ESG standards that was established in ISO 14001 in 2004, environmental performance is related to the degree to which a company is able to effectively manage the environmental aspects of activities, products, and services, as well as the effects that these things have on the environment (El-Mohr et al., 2021). Currently, organizations in a variety of countries are required to report on their environmental, social, and governance (ESG) performance. This is due to the detrimental effects of environmental damage, discriminatory practices, and organizational lack of transparency on both internal and external organizations (Ahmad et al., 2024; Wu et al., 2024).

In the interim, from an Islamic perspective, it has been commanded that humans be created as caliphs (leaders) on Earth, with the responsibility of ensuring the preservation of the earth and preventing any harm to the creation of Allah SWT, as elucidated in Q.S Al-Baqarah: 11-12:

“And when it is said to them, "Do not make mischief on earth," they say, "Indeed, we are only reformers." Behold, it is they who make mischief, but they perceive it not." (*Al-Qur'an and translation*, 2019)

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This indicates that Islam is not just a religion that pays attention to matters of worship, but also about humans who are obliged to protect the universe and not damage God's creation. Of course, this principle needs to be applied in all aspects, both in daily life and also in economic matters (R. Al Ansari & Alanzarouti, 2020).

Event though the development of Islamic finance connects with the implementation of ESG, there are still some problems and issues that need to be solved such as lack of agreed standards on what ESG investment means and how it fits with Sharia law, for example the integrity between Islamic finance and the protection of nature itself is not yet clear (Nasution et al., 2022). The financial industry appears to be placing less priority on environmental considerations when providing financing (Ahmad et al., 2024; R. Al Ansari & Alanzarouti, 2020; Hamrouni et al., 2019). In addition, the social idea event in Islamic financing has a philanthropy concept, but the reality "S" approach in ESG is not exclusively about charity, but also all aspects of business with a stakeholder perspective (Signori et al., 2021; Wai-Khuen et al., 2023). The other issue about "G", there is the issue of additional costs and a weakening of the credit rating if the company implements the ESG principle, as well as the issue that only certain companies are sensitive to ESG (A W Alam et al., 2022; Kim & Li, 2021).

Several studies, the reseach from Nasution et al., (2022) has been discuss islamic finance and ESG using SLR method but it just focus in bibliograpy analysis and the content of analysis are miss. The other research from Bsoul et al., (2022) partially analysis E pillar in Islamic but have not been discuss abput S and G concept, as well as Adnan Khurshid et al., (2014) and Abdelzaher et al., (2019) and other previous study from Tumewang et al., (2024) was using SLR to discuss about G and Islamic Banking, ESG in Islamic customer perpective but about E and S concept are not in discussion. Moreover, Paltrinieri et al., (2020) mention to achive ESG performance, the companies should formulate ESG fundamental together based on values's companies, in his research on "S" concept that suitable for ESG in periode 2014-2017.

Event tough previous study has been discussed about ESG in Islamic finance and business, but unfortunately their study does not briefly review the fundamental of Islamic for ESG, which is crucial to develop ESG according to Islamic based, and beneficiary after applying ESG. Their work required an extensive identification and elaboration of research gaps that could provide valuable insights for future investigations. Curent study is crucial for providing suggestions in future research are ESG in Islamic Finance and business.

Therefore, based on previous explanation the objective of current resaerch is to analysis of ESG in Islamic Finance and business with bibilimetric approach, to find the fundamental of Islam in relation with E, S, and G trough contentet analysis. This study will also review the impact of ESG on Islamic financial and business. The structure of this article consists of an introduction, second part is theory, continued with resaech method and model. Next is analysis and discussion of result and last but not list is conclusion.

## **LITERATURE STUDY**

### **ESG History**

People began to speak up about environmental issues and workplace discrimination in the 1960s and 1970s. Improved salaries and social responsibility were only a cover, and it was voluntary for businesses to pay attention to environmental, social, and information disclosure issues (Sherwood & Pollard, 2023). In 1992, UN actions relating to the Earth Summit in Rio de Janeiro developed a worldwide framework for climate challenges, spreading the ESG idea globally. The UN encouraged businesses to incorporate labor ethics like anti-apartheid and human rights in the late 1990s. currently, companies considering explaining ESG indicator performance are affected by the rising ESG trend. SASB and TCFD have also created ESG frameworks in other sectors (Baid & Jayaraman, 2022). These institutions produce business-sector ESG model standards. ESG is now a requirement for firms and can affect their sustainability.

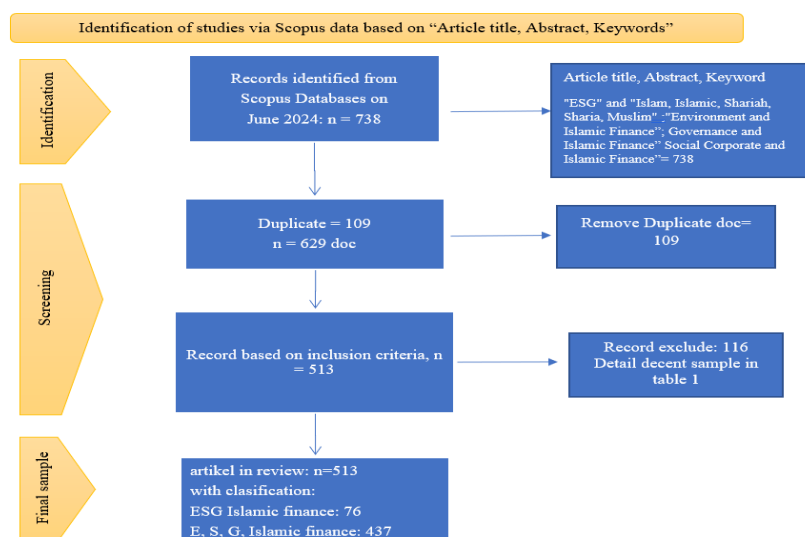
## **RESEARCH METHODOLOGY AND FRAMEWORK**

This study aims to find the fundamental Islamic for ESG, as well as the contribution of ESG in supporting Islamic by using several qualitative methods, with SLR (Systematic Literature Review) and content analysis. Bibliometrics is a quantitative analysis that allows academics to identify patterns that develop in collaborative networks and intellectual structures of a particular field of study (Donthu et al., 2021; Hiebl, 2023). This method

is useful for mapping ESG and Islamic finance research based on statistical analysis. Researchers can categorize literature, examine gaps in previous research, and provide recommendations on research problems using content analysis and SLR (Clément et al., 2023; Hiebl, 2023; Martiny et al., 2024). Item Preferred Reporting Items for Systematic Review and Meta-Analysis (PRISMA), a suitable way to synthesize the study findings from selected studies, such as showing the most significant variables in the research field (Alshater et al., 2022) and PRISMA process we used bibiloshiny program with Rstudio tools.

For the SLRs we adhere to the four basic PRISMA processes, as described by Moher et al., (2010) and Sarkis-Onofre et al., (2021): identification, screening, eligibility evaluation, and findings. The process of data collection and the final number of papers selected for review, it is important to remember that reputable sources or references are also things that should not be ignored. In the initial stage, there are 3 processes explained in Figure 1. The selection of the Scopus index is based on the level of credibility of the references, this is in line with research Martiny et al., (2024); and Nasution et al., (2022), and a widely recognized and comprehensive database that encompasses various social disciplines, including business and finance professions (Guckenbiehl et al., 2021).

At the scopus screening stage, this study directly uses the scopus website to search for references. In the abstract, keyword and article title search, using the keywords "ESG and Islamic", but because it is very limited, and only found 67 articles and there were many inconsistencies with the theme of ESG and Islamic finance, therefore this study added several other related keywords such as "Sharia", "Shariah" "Muslim" and Islam then, we added each element of "E, S, G, AND Islamic finance" to this study, to remain in accordance with the research objectives regarding the fundamentals of E, S, G in Islamic finance. Resulting in a total of 738 documents and remove similar 109 documents. Further to sharpen the discussion and fit the scope in the context of economics, finance and business, we narrowed the subject area of our research so that the subjects discussed were relevant to the research objectives.



**Figure 1.** Proses Screening Data

The next stage is to check the availability of each document, the content of articles related to ESG and Islamic finance, the detail criteria sampel in table 1.

**Table 1 Criteria of sample**

Criteria	Decent sample
Research topic	According to Article title, Abtract, Keyword
Subject Area	Economics, Econometrics and Finance; Business, Management and Accounting; Decision Sciences; Social Science; Art and Humanities
Year of publication	Articles until 2024
Language	Articles in English
Research methods	Qualitative, quantitative, and mixed methods
Index	Scopus Q1-Q4

Finally obtained a sample of 513 documents, whit specification ESG in Islamic Finance is 76, and E, S, G, in Islamic Finance 437 document. We deliberately separated into 2 samples as our purposes to analysis the ESG in Isalmic finance, and the fundamental and practice of E, S, and G in Islamic finance.

The next stage of this research is bibliometrics using VosViewer software. VOS viewer can import and export data from a variety of sources, and it has amazing visualization(Irfan & Rusmita, 2023; Van Eck & Waltman, 2011). After sample selection, the last part is content analysis, Vourvachis & Woodward (2015) explains content analysis as a method that can highlight qualitative data in terms of discussion and the core of the writing. This stage is carried out to understand the references with the most citations. Content analysis will focus on research findings from each article. The results will later provide an overview of the extent to which the ESG concept is understood and practiced in Islamic finance (Khan, 2022). Thus, the objectives of this study are:

R1: Identify the increasing trend of ESG articles in Islamic finance, and the highest number of publications.

R2: Identify the most cited research titles

R3: Investigate the global collaboration network and the most widely used topics based on keywords

R4: Analyze the fundamentals and practices of E, S, G in Islamic finance and business,

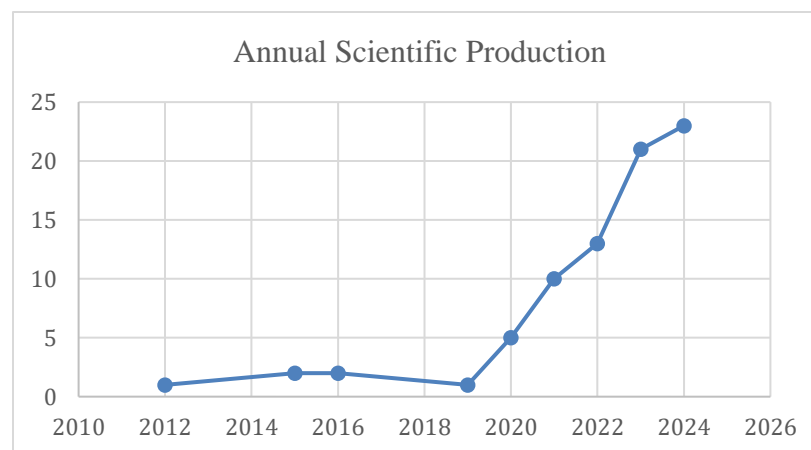
R5: Last section analyzes the role of ESG in Islamic finance

## RESULTS AND DISCUSSION

Analysis publication of ESG Islamic Finance is measured using bibliometric analysis to answer the problem formulation (1-3) with RStudio tools. Publication trends are often used to present the development of the discipline and current scientific output (Liu et al., 2020)., while content analysis is used to answer problems 4-5. The main information data as table 2.

### Analysis of publication ESG in Islamic Finance and Business

Figure 2 reflects the number of publications on ESG and E, S and G topics in Islamic Finance, Islamic Business. The increasing interest in this topic is due to the increasing demand for ESG results and stakeholders' views on its role in achieving sustainable development, as well as its financial results. Moreover, the existence of social problems and global warming issues caused by industry, as well as continuous environmental campaigns have led to a large demand for research on ESG enhancement factors and the impact of ESG on corporate finance and performance(Cai et al., 2024; Liu et al., 2023; Wang & Chai, 2018). In figure 2 shows the most relevant sources is Journal of Islamic Accounting and Business Research which have 44 articles, more details in figure 2. Meanwhile the trend of ESG in Islamic finance publication was start production in beginning 2012 and strighly increase from 2019, see figure 3.



**Figur 3** Trends in Islamic Finance and Business Topics

## Analysis of Articles Impact

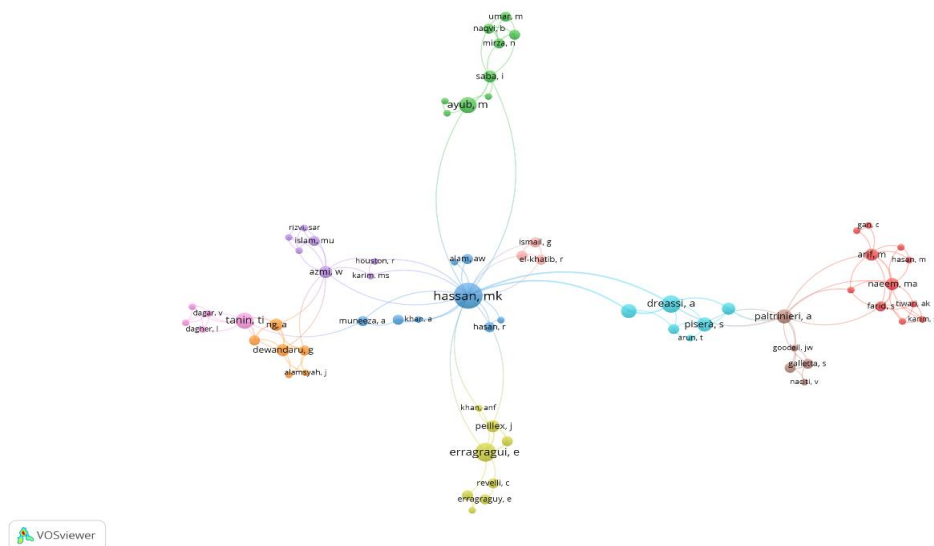
The most frequently cited articles are listed in table 3, which is based on the Scopus databases. The present investigation evaluates the influence of articles by analyzing global citations. The impact of an article is evaluated by global citations, which are based on the total number of citations from a variety of disciplines and articles (Aboagye et al., 2021; Abrizah et al., 2013). According to table 3, the articles written by Paltrinieri et al., (2020) has the highest scopus citation among articles published by Scopus indexed journals. The following is a table of article citations taken based on the highest citations with a range above 20.

### Table 3 Most cites document

Author	Title	Scopus citation
(Paltrinieri et al., 2020)	Islamic finance development and banking ESG scores: Evidence from a cross-country analysis	52
(Peng & Isa, 2020)	Environmental, social and governance (Esg) practices and performance in shariah firms: Agency or stakeholder theory?	45
(Erragraguy & Revelli, 2015)	Should Islamic investors consider SRI criteria in their investment strategies?	38
(Qoyum et al., 2022)	Does the islamic label indicate good environmental, social, and governance (ESG) performance? Evidence from sharia-compliant firms in Indonesia and Malaysia	37
(Bukhari et al., 2019)	Green Banking and Islam: two sides of the same coin	33
(Erragragui & Revelli, 2016)	Is it costly to be both shariah compliant and socially responsible?	31
(M Kabir Hassan et al., 2021)	The crossroads of ESG and religious screening on firm risk	30
(Yesuf & Aassouli, 2020)	Exploring synergies and performance evaluation between Islamic funds and socially responsible investment (SRIs) in light of the Sustainable Development Goals (SDGs)	23
(Asl et al., 2022)	Carbon market and the conventional and Islamic equity markets: Where lays the environmental cleanliness of their utilities, energy, and ESG sectoral stocks?	21

## Network Collaboration Analysis and Keyword

Kumar, (2015) and McDowell & Melvin, (1983) states that identifying co-authorship analysis will help researchers build their research collaborations and produce higher quality papers. It offers a broad and cross-country perspective. The distance between nodes represents the relationship between countries, and a smaller distance indicates a higher relationship and a stronger relationship between them (Van Eck & Waltman, 2014) and . Figure 4 illustrates the research collaboration between researchers on ESG and Islamic Finance, which include at least one publication collaboration. Based on the findings there is 10 cluster, the color of an item is determined by the cluster it is in. Lines between items indicate links. The most productive researcher is Prof. M. Kabir Hasan that shown by the size of the label and the circle of an item which determined by the weight of publish article.



**Figure 4.** Co-authorship network map of authors

Next, the most discussed topics in ESG and Islamic Finance research are presented using keyword co-occurrence analysis. The mapping analysis visualizes the most common topics based on keyword co-occurrence (Al Husaeni et al., 2023; Seale & Charteris-Black, 2010; Wang & Chai, 2018). [Figure 5](#) and figure 6 explains the occurrence of keywords: keyword writers set the minimum occurrence of a term is 5. Van Eck & Waltman, (2014) underlines that co-word analysis on article titles and abstracts can be constructed and visualized to reveal the main research theme groups based on the similarity of research topics. Based on the figure 5, this study shows network visualization and confirms that there are 4 clusters (red, yellow, green and blue). The initial keywords are partitioned into specific colors that describe the closer cluster. Green describes research in group ESG, namely, ESG activity, ESG performance, ESG practice, Islamic Bank, non financial firm. Red represent keyword Islamic finance development, Islamic sustainability finance, principle. Blue, are categories ESG index and related to capital market. Yellow, is related to stakeholder, responsible investment and SRI.

By analyzing keywords overlay visualization, as shown in [Figure 6](#) the keywords publication that is older will be displayed in a heavier dot color, while the brighter color such as yellow indicates the latest keywords, such as ESG, SDGS, Islamic sustainable finance

### **Fundamental ESG in Islamic Finance and Business**

The research above highlights that Maqashid syariah serves as the fundamental principle for implementing ESG in Islamic finance, as well as for ensuring Islamic compliance. Such as research from Sairally, (2015) and Bukhari et al., (2019), who want to prove how ESG is applied in Islamic finance and investment. Sairally, (2015) stated that the current ESG is in line with the principles of Maqashid Sharia, but to achieve sustainability based on the spirit of Islam, IFI needs to pay more attention to social points such as humanity, welfare and economic sustainability. Similar result from Mohd Zain et al., (2024) that said Takaful operator value have integration with ESG, particularly in protection life, religion, intellect, lineage and wealth.

The results of the content analysis regarding the fundamental and practices of E, S, G in Islamic finance and business can be seen in [table 4](#)

### **Fundamental Environment based on Islam**

In order to uphold the equilibrium of sustainable development, it is imperative to safeguard all-natural resources from both exploitation and over utilization. To solve this environmental problem, world economists have begun to campaign for the “E” principle in business, to maintain natural resources and avoiding scarcity that make production costs expensive. The E principle applies to all institutions including Islamic financial and business institutions. Meanwhile, Islamic finance and business also have a basic principle based on Maqashid Syariah which also realizes benefits for humanity (Boudawara et al., 2023).

Islam, derived from the teachings of the Qur'an and the practices of the Messenger of God, encompasses a comprehensive life philosophy. But it is widely known that not all syariah laws can be implemented in any concept specially related to activities that is prohibited in Islam, The Islamic religious principles and beliefs, as defined by the Holy Book, the Qur'an, Hadith, and Shari'ah legislation (Islamic law), establish the connections between humans and God, humans and the natural world, and humans and society (Kamla et al., 2006). Helfaya et al., (2018) and Kamla et al., (2006) explain that Al-Qur'an is the main sources provides explicit values about environment and should serve as the foundation for the economic system and economic relationships in Islamic society, irrespective of temporal and spatial considerations. Sources of law in Islam is the Quran, Hadith, Fiqh, to fatwas, emphasize the obligation to protect the environment, which is stated in the principles of mizan, ihsan, maqashid Sharia all of which aim to bring maslahah to humans, and also a form of obedience to Allah SWT (Islam et al., 2022); (Khalid, 2017); (Gulzar et al., 2021); (Bsoul et al., 2022); (Abdelzaher et al., 2019).

The content of the environment is based on the belief that humans are God's vicegerents on earth and their behavior and actions are motivated by worldly and heavenly rewards. Moreover, as humans and believers, one way to carry out their duties as vicegerents is to obey His command to protect the environment as a form of gratitude to God (Bakhashab, 1988); (Rice, 2006). Gratitude is not enough just to be expressed, but actions need to be taken, one of which is by preserving the universe, humans, animals, plants, human rights, property, water, land, donated assets, and so on, as mentioned in the Al-Quran (Abdelzaher et al., 2019; Abdelzaher & Abdelzaher, 2017). Based on the above description, it is clear that Islam prohibits all forms of actions that can damage or hinder the biological or social functions of this very valuable element, either through destruction or

contamination with any substance. Islamic law mandates that everything needed to fulfill human life and the environment is obligatory (Gulzar et al., 2021). Therefore, we can say that “E” concept is in line with Islamic. The implications of Islamic concept for various environment businesses, are: green-concept development, factories that use environmentally friendly products, implementation of the use of recycled products, and improve environmental by applying green supply chain (Helfaya et al., 2018); (Islam et al., 2022); (Bsoul et al., 2022)

Therefore, the Quran has been explained well, then as humans, of course, we need to think about how to apply it in everyday life, especially in this topic related to finance and business. Some references mention that environmental protection in the Islamic finance and business industry can be in the form of Farming, Wildlife and Marine Conservation Projects, Green Finance/Investment, Green sukuk, Islamic finance has tremendous social finance possibilities as well as banking (Abdelzaher et al., 2019).

### **Fundamental Social based on Islam**

In terms of being active and social, God has also emphasized to provide benefits to others and behave well. For example: company owners need to pay attention to employees and not damage the environment. That is also emphasized in the Social principle in ESG, where the social aspect of the company is expressed in the concept of corporate social responsibility.

On the social dimension, In the Qur'an, there is a term that has a meaning that is "relatively" close to social welfare, namely "maslahah". The word maslahah comes from the word "shaluha" which means "useful and appropriate", which is also the opposite of the word "fasada" (damaged). So, it can be interpreted that "maslahah" is work which, if done, will obtain benefits and can avoid damage and social welfare is all efforts that encourage the creation of benefits for society.

Furthermore, regarding social matters from an Islamic perspective, according to Adnan Khurshid et al., (2014); Ali Aribi & Arun, (2015); Alshammary, (2014); Koleva, (2021); and Turker, (2016), they mention Islamic social is more than just giving donations, more than just giving donations, but also being responsible for paying attention to the lives around us.

Islamic firms prioritize ethics and social responsibility as enduring principles, reflecting their strong commitment to social responsibility. The Islamic approach to business ethics emphasizes the importance of criteria commonly found in stakeholder theory, such as justice and balance. Additionally, this approach incorporates unique criteria, such as trust and compassion. Islam embraces a stakeholder approach that is akin to the concepts advocated by Freeman (Adnan Khurshid et al., 2014). In Islam, it is recognized that owners of businesses or those who provide financial support have the legitimate right to make profits. However, this should not come at the detriment of the interests and rights of other stakeholders. Next, Khurshid et al., (2014); Tarique et al., (2017); Zaman et al., (2018) mention that in Islam, there is a recognition that not all stakeholders are considered to have equal entitlements. The primary stakeholder group consists of owners/financiers and employees, including management. The subsequent group comprises suppliers and customers, while the last group include all external parties. Islam encompasses a wider range of areas, such as the cultivation of human resources and the need for transparency in commercial dealings. Furthermore, it provides explicit criteria that establish what actions or items are considered permissible, known as halal, and what actions or items are considered forbidden, known as haram. Additionally, Islam possesses a well-defined system for implementing the Shar'iah, as well as community-based enforcement and ultimate consequences for individuals' responsibility regarding unethical conduct on the Day of Judgment.

Regarding the practice of social based on Islamic principle in the industry, it can be classified into two categories, first is for internal which is directly involved in the business process such as employee and supplier (Alshammary, 2014). Companies are obligated to conform to regulations that ensure employee welfare. This includes respecting employees' human rights, promoting equal opportunities and providing training, offering fair salaries, ensuring health and safety, protecting against discrimination, and allowing employees the freedom to practice their religion (Zahid & Hassan, 2012). Second, the external parties such as client, social, all stakeholder. Clients are entitled to receive transparent information about the product; therefore, marketing regulations must be unambiguous. The company should prioritize providing accurate information, including details such as halal/haram labeling, as well as the weight and size of the products (Franzoni & Ait Allali, 2018; Zahid & Hassan, 2012). Likewise, industries also implement social initiatives as a reflection of their commitment to stakeholders and the environment. The context of along with offering financial aid and implementing



numerous community development projects, they also contribute to youth employment programs, especially in impoverished countries. For instance, they build educational institutions, medical centers, and other public amenities (Kotb Abdelrahman Radwan et al., 2023; Nuredini & Matoshi, 2022). Islamic social finance efforts include empowering zakah recipients through agriculture-based programs and developing a green waqf; green innovation; green supply chain management; lending for alternative energy use.

### **Fundamental Governance based on Islam**

Meanwhile governance, the principles of Islamic governance are very broad, the responsibility Islamic good corporate governance not only limited to how companies run business fairly to stakeholders, have include the values of transparency, accountability, responsibility and independence, and but also obey to rules of God as the ultimate owner (Alam Choudhury & Ziaul Hoque, 2006; Choudhury & Alam, 2019; Choudhury & Hoque, 2019). The organizations and companies that are classified within the Islamic sharia category are obligated to disclose certain information (Hayat & Hassan, 2017). This includes details concerning non-halal activities conducted, such as the existence of non-halal income, the rationale behind such activities, and the manner in which the organization manages such activities (Gati et al., 2024; Hayat & Hassan, 2017; Pranata & Laela, 2020). Environmental protection, employee, debtor, and creditor policies, and resource utilization are additional categories of data. This is what is called a form of company responsibility towards stakeholders and also as an agent of stakeholders.

Even more companies that intentionally comprehend and integrate Islamic values into their business operations thus exhibit their commitment to implementing sound administrative practices (Mansour & Bhatti, (2018); Boudawara et al., (2023); Mollah & Zaman, (2015); Safieddine, (2009)). 'Islamic partnerships' can exhibit the high calibre of their governance by engaging in more transparent and honest discussions concerning their corporate governance practices. Sharia law acknowledges that when conducting business or trade, it is permissible to acknowledge elements that are *muamalah* and do not contravene sharia law. However, even though Islamic governance have similarity to conventional governance in accountability, decency, morality, obligations, and social justice, the key point of islamic corporate governance is it stipulates that such transactions must be governed by Islamic or religious principles concerning Tawheed (Mansour & Bhatti, 2018)

Based on the above discussion on the principles of good governance as in many opinions of scholar, it is noted that the principles must compliance as the Holy Quran, which describes good governance as the law of justice, while operating for enhancing earnings and profits must consider how their practices and business will affect people, animals and the environment (Ayub et al., 2023). In this particular circumstance, and notwithstanding the fact that in Islam, primary responsibility lies with God (Allah), it nonetheless explicitly mandates corporations to provide investors and other business partners with accurate, reasonable, convenient, and transparent information regarding financial matters and assets.

### **The Role of ESG in Islamic Finance and Business**

Furthermore, regarding the role of ESG in Islamic finance and business are explain by content analysis, further more detail refer to [table 5](#)

### **ESG in Islamic Listed Companies Performance**

From several previous studies based on capital markets, it is proven that stock screening based on religion has a good relationship with ESG, even the ESG components themselves are in line with Islamic principles. This is proven by research Erragragui & Revelli, (2016); Erragraguy & Revelli, (2015); Lee & Isa, (2023), (2024); Peng & Isa, (2020), which uses a sample of companies indexed by Sharia, the results of the study show that Islamically screened stocks have better performance than conventional stocks. The results of their research are also similar to Qoyum et al., (2021), (2022) Furthermore, it was also concluded that the inclusion of sharia screening significantly enhances the performance of firms indexed by ESG, surpassing other indexes, including those that are solely Islamic-indexed. Companies indexed in Sharia are proven to have high ESG values, this is because Islamic-based companies do not only prioritize business values (profit) but also their religious values. Sharia-compliant firms are more likely to engage in sustainable and responsible practices, especially towards the environmental dimension (M K Hassan et al., 2022).

### **ESG and Financial Risk**

Meanwhile, regarding ESG and financial risks, both systemic and non-systemic risk, it is proven that companies included in the Sharia and ESG indices have good risk mitigation, this is confirmed by the findings that the



existence of cost equity and risk mitigation costs is opposite with the ESG value, where the higher the ESG value, the lower the risk faced by the company (M Kabir Hassan et al., 2021, 2023; Lee & Isa, 2024). But different result was discuss by Rubbaniy et al., (2022), he mention that ESG can not pretent the investor fear from covid case, so in the shock market ESG is not save heaven portfolio and Hasan et al., (2023) said that invest in green portfolio are more permissible than ESG. More over in the covid the firms in Muslim countries use cash holdings as a substitute for corporate sustainability without any changes in the COVID era, firms with lower corporate sustainability—CS (ESG) hold on to their cash more, which fits with the agency and precautionary purpose of cash, and the ESG combined score and its pillars have a big effect on how well a company does. In other words, firms with higher ESG are affected less risk than firms with lower ESG in terms of their success (H Tekin & Burgazoglu, 2022; Hasan Tekin & Güçlü, 2023).

### **ESG in Islamic Financial Institution**

Meanwhile, for Islamic funds, the role of ESG can have an impact on increasing investment returns. The results show that including ESG and SDGs in the investment islamic fund will not negatively impact their returns. Instead, it makes good stroger effects and helps to fill funding gaps for the SDG (Shakil et al., 2019; Yesuf & Aassouli, 2020).

For Islamic Banking, the implementation of a good environment encourages the performance to be more efficient (Ahmed W Alam et al., 2021). Further, Bukhari et al., (2019); Delle Foglie & Keshminder, (2022) stated that financing based on green concepts also needs to be implemented so that the goals and IFIs can be achieved because Islam is not only about anti-riba, masyir and gharar, but also the environment. On the other hand, with the existence of financing based on the environment, it opens up opportunities for banks to attract customers who want to invest based on Islamic and green concepts. Such as financing for environmental conservation or investment in property with green concepts and others. They need to expand products is not only to improve ESG performance but also to achieve the goals of maqashid Sharia. This was also conveyed by Paltrinieri et al., (2020) which states that all sharia financial instruments, such as sukuk, Islamic funds, Islamic insurance and Islamic banking can support the achievement of ESG values and ultimately achieve Islamic values.

Based on the explanation above, it can be concluded that Islamic finance is very much in accordance with ESG both in terms of principles and their application. This is proven by the existence of sharia-based green investments. Some ideas that may be applied in environmentally-based financing can be mapped based on the type of financing. For example, consumer financing for vehicles, then banks can require vehicle age regulations, and low-carbon vehicles, as well as reforestation agricultural financing (Bukhari et al., 2019). Meanwhile, for financing for buildings, the green concept can be applied. Islamic financial institutions need to open types of financing and also capital investments that support the environment (Delle Foglie & Keshminder, 2022).

While instrument S in Islamic finance according to M K Hassan et al., (2022), shariah compliance companies have sensity to social event, they give the charity for the country that face natural disater. In addition to providing financial assistance and implementing various community development projects, companies that have Islamic values also contribute to collecting social funds and distributing them in the form of donations. For example, for educational institutions, health centers, and other public facilities (Kotb Abdelrahman Radwan et al., 2023; Nuredini & Matoshi, 2022). Last in term of governance (Peng & Isa, 2020) and (Lee & Isa, 2024) mention role of stakeholder theory in the shariah compliance companies as well as IFI. The Islamic approach to business ethics emphasizes the importance of criteria commonly found in stakeholder theory, such as justice and balance. Zuhroh, (2022) mention sustainability of Islamic Bank Governance is favorable to the advancement of Islamic banking practices and concept development.

### **CONCLUSION**

Based on the results of previous research and literature reviews, ESG is in line with the principles of maqosid sharia which aims to realize maslahah through protecting the environment and is implicit in how we safeguard the five goals of maqosid, namely protecting religion, protecting reason, inheritance, wealth, soul. Moreover, as Muslims, implementing ESG principles is not only related to economics but more about Tahwid to Allah, and as a human duty as caliph. All E, S, G instruments exist in Islam, starting from protecting the environment, which is also in line with the principle of stakeholders, implementing Accountability (Hisab), Transparency, Justice (Adl), Equality, promoting good and preventing evil (Al-Amr Bil Maruf) wa Nahi al-Munkar), and in social matters it is maintaining human rights, economic responsibility (halal/haram, prohibition of usury, gharar,

maysir), law (providing correct information, measurements, weights), ethics (human welfare), philanthropy / Charity: Zakat, sedekah, infaq, wakaf, qard hasan.

In Islamic finance and business, ESG has been proven to contribute greatly to Islamic financial performance. On the other hand, for investors, there is no doubt to implement or choose stocks based on Islamic performance and ESG because sharia stock performance has also proven to provide environmental performance and financial. Even sharia-based companies which implement ESG have the best portfolio performance and have a relatively small risk in the capital market. Moreover, Islamic banking currently are considered to develop financing based on green concept with ponder Syariah contract, even though green sukuk has been issuance but the opportunity to develop financing product still wide open.

### **Research implication**

It was discuss above that nodoubt to implement ESG for Islamic finance and business. The concept of green, innovation, and appling governance in the companies are give beneficial, not only for the compnies but also the society and environment. The Islamic finance institution can start implementing financing based on environmentally friendly (green concept). Likewise, companies must be more confident in implementing environmentally friendly innovations.

### **Limitation of Studies**

ESG references in Islamic finance and business are not as many studies on ESG as general. Furthermore, for further research, data sources may not limit to Scopus, researchers can use the web of science, deminsion, and others so that the study is more extensive.

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# *Fundamental and Role ESG in Islamic Finance and Business: A Literature Review and Content Analysis*

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## Appendix

Table 2 Main Information About Data

Description	Results
Timespan	1988:2024
Sources (Journals, Books, etc)	323
Documents	629
Annual Growth Rate %	10
Document Average Age	4,96
Average citations per doc	8,895
References	0
DOCUMENT CONTENTS	
Keywords Plus (ID)	474
Author's Keywords (DE)	1567
AUTHORS	
Authors	1282
Authors of single-authored docs	153

Authors Collaboration	
Single-authored docs	177
Co-Authors per Doc	2,51
International co-authorships %	33,07
DOCUMENT TYPES	
article	428
article article	1
article book chapter	2
book	33
book chapter	105
book chapter article	1
conference paper	27
conference review	2
editorial	2
erratum	2
note	1
review	25

Data: After remove duplicate\*

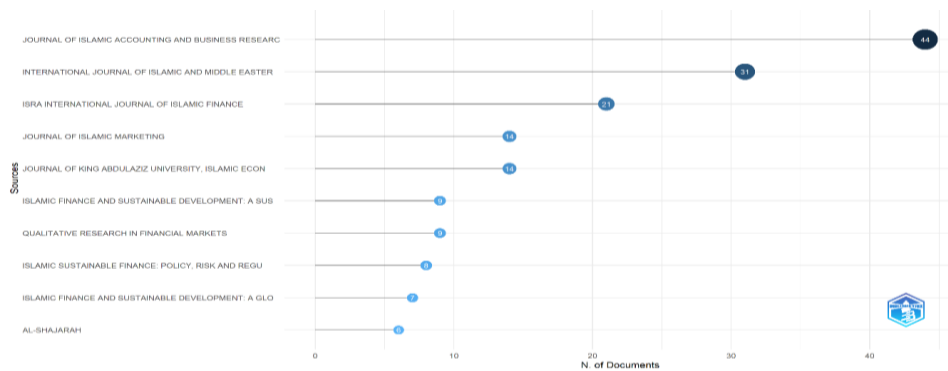
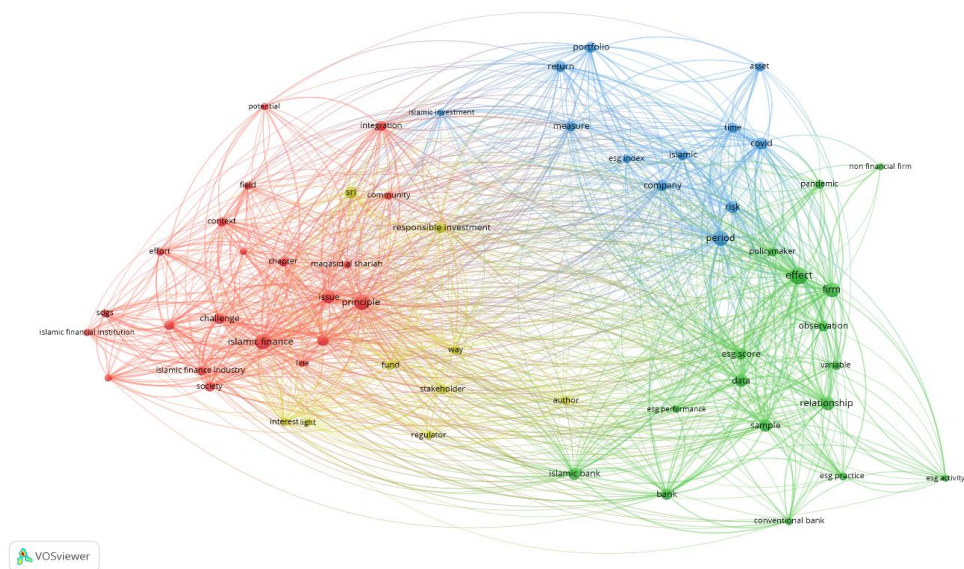


Figure 2 Most relevant sources







			qardh hasan
Governance	Fundemental Islamic perspective of good governance	(Alam Choudhury & Ziaul Hoque, 2006) (Krämer, 2004) (bin Mohamad Yunus, 2017) (Pranata & Laela, 2020)	Mutual Consultation (As-Shura) Leadership (Khilafah) Accountability (Hisab) Transparency Justice (Adl) Equality Promote good and prevent evil (Al-Amr Bil Maruf wa Nahi al-Munkar)
	Governance principe and practice in Industries	(Mansour & Bhatti, 2018) (Boudawara et al., 2023) (Mollah & Zaman, 2015; Safieddine, 2009) (Mollah & Zaman, 2015) (Choudhury & Alam, 2019; Choudhury & Hoque, 2006, 2019) (Gati et al., 2024; Hayat & Hassan, 2017; Pranata & Laela, 2020)	philosophical background: dual (mixed) Islamic economic and institutional perspective; Protection of stakeholders' interests; discipline, accountability (Accountability not only to stakeholders but also to God, the ultimate owner) fairness, independence, responsibility, transparency, and social responsibility  practice in improving governance: shariah supervisory board; Commitment to Governance; Improve qualification Board of Directors; Devided Haram/Halal in transaction; validating the rights of customers (including Investment Account Holders); Audit and Control

Table 5. Content Review ESG in Islamic Finance

Author	Title	Purpose	Result
(Paltrinieri et al., 2020)	Islamic finance development and banking ESG scores: Evidence from a cross-country analysis	Analysis Islamic Financial Development Indicator/ Islamic Banking, Takaful, Other IFIs (Investment companies, micro-finance institution, etc.), Sukuk and Islamic Funds to ESG	The positive relationship between IFDI and ESG scores largely revolves around the social pillar. This finding reinforces the generally recognized relationship between Islamic finance and sensitivity to social implications, although gains in sustainability are subject to non-linearity.
(Peng & Isa, 2020)	Environmental, social and governance (Esg) practices and performance in shariah firms: Agency or stakeholder theory?	Analysis the impact of ESG (environmental, social and governance) practices on financial performance for a sample of MSCI World Islamic Index firms over the period 2010–2017. They also test whether ESG engagement should be considered an agency or stakeholder issue.	The results show that ESG aggregate and its individual dimensions are positively related to firm performance, which is consistent with stakeholder theory. They find no evidence that ESG is related to agency problems in MSCI World Islamic Index
(Lee & Isa, 2023)	Environmental, social and governance (ESG) practices and financial performance of Shariah-compliant companies in Malaysia	This study aims to examine the impact of environmental, social and governance (ESG) practices on the financial performance of Malaysian <i>Shariah</i> -compliant companies over the period 2010–2017.	This research demonstrates a positive correlation between financial performance and ESG practices, indicating that ESG practices have the potential to increase the value of a firm. Furthermore, the authors discover evidence that the ESG–Shariah screening can improve the ESG–performance relationship.
(Lee & Isa, 2024)	ESG and ESG controversies on firm risks in the emerging markets: The moderating roles of Shariah screening and legal origins	This study examines the impact of environmental, social and governance (ESG) and ESG controversies on firm risk, and proposes the moderating roles of Shariah screening and legal systems over the relationship	ESG has a negative correlation with risks, whereas ESG controversy has a positive correlation with risks. This implies that when companies participate in a greater number of ESG (Environmental, Social, and Governance) activities, it enhances their connections with stakeholders and thereby decreases the risks faced by the company. Moreover, this study also discovers that both Shariah screening and the legal environment have substantial moderating effects in mitigating risks by influencing ESG and ESG controversies. The findings support the idea that Shariah-compliant companies are more likely to participate in ESG initiatives.
(Erragraguy & Revelli, 2015)	Should Islamic investors consider SRI criteria in their investment strategies?	Analysis the potential of integrating positive ESG screening with Islamic portfolios using KLD social ratings, to determine the financial price that <i>shariah</i> compliance and social responsibility entail	This study provides empirical evidence that incorporating ESG criteria into the Islamic investment process does not harm portfolio performance, as well as partial support for a good governance premium.

(Erragragui & Revelli, 2016)	Is it costly to be both shariah compliant and socially responsible?	To find the integration of social performance measures (companies the most virtuous or high-rated in terms of environmental, social, and governance (ESG) issues) in Islamic portfolios using KLD social rating. they seek to determine the financial price of complying both to Islamic investment and SRI principles. To do so, they measure the financial performance of self-composed Islamic portfolios with varying ESG scores.	there is no adverse effect on returns due to the application of ESG screens to sharia-compliant stocks during the period 2007-2011 while reporting significantly higher performance for portfolios with good records on governance, product, diversity, and environmental issues. In contrast, negative performance is associated with SRI divestment strategies from sharia-compliant stocks with societal and human rights controversies
(Paranque & Erragragui, 2016)	Islamic investment versus socially responsible investment: Lessons from comparison	the purposes study is to explores the complementarities of Islamic investment with Socially Responsible Investment, and it examines the financial price, for investors, of being both shariah-compliant and socially responsible.	Findings The results show no adverse impact on returns due to the application of dual screening, Islamic and SRI, and show significantly higher performance for positive governance screening over the period 2008-2011. This outperformance cannot be explained by differences in investment style. However, we see significantly better performance for some 'irresponsible' portfolios involved in community and human rights controversies
(Qoyum et al., 2022)	Does the islamic label indicate good environmental, social, and governance (ESG) performance? Evidence from sharia-compliant firms in Indonesia and Malaysia	This study empirically examines the effect of an Islamic label on environmental, social, and governance (ESG) performance in Indonesia and Malaysia. Islamic firms with lower debt, minimum non-sharia compliant income, and higher ethical standards are expected to contribute more to the environment and society.	This study finds significant differences in the quality of environmental and social performance between Islamic and non-Islamic companies in Indonesia and Malaysia. Islamic companies have taken good steps in integrating Islamic values with ESG factors. Islamic companies have taken good steps in integrating Islamic values with ESG factors.
(Bukhari et al., 2019)	Green Banking and Islam: two sides of the same coin	By SLR studies, this article tries to propose the use of Islamic principles in developing an emotional attachment between Green Banking practices and the Muslim consumer market to facilitate Green Banking adoption.	Islamic banks can instil Islamic principles and develop a strong emotional relationship with Muslim consumers through brand-self-congruity by adopting Green Banking characteristics. Green Banking aligns with Islamic beliefs, making its adoption essential for Islamic banks. Islamic banks can capitalize on the rich Muslim consumer market by implementing Green Banking through the discussed dimensions and sub-dimensions.
(Yesuf & Aassouli, 2020)	Exploring synergies and performance evaluation between Islamic funds and socially responsible investment (SRIs) in light of the Sustainable Development Goals (SDGs)	The point of this study is to look at the risk and return features of Islamic funds compared to SRI funds and observe when the two can work together to reach the SDGs. The study also looks at how well Islamic funds have done financially compared to both regular funds and standards for the Islamic market.	The results show that there wasn't a statistically important difference between the earnings of Islamic funds and SRI funds anywhere in the world. Also, compared to other instruments in most of the areas, Islamic funds were less sensitive to risk. The results show that including ESG and SDGs in the investment choices of Islamic funds will not negatively impact their returns. Instead, it makes their good effects stronger and helps close the funding gaps for the SDGs.
(Qoyum et al., 2021)	Does an Islamic-SRI portfolio really matter? Empirical application of valuation models in Indonesia	This study looks at how well four different types of portfolios in Indonesia have done over time: the Indonesia Shariah Stock Index (ISSI), socially responsible investing (SRI), conventional, and Islamic-SRI portfolios. This study develop combines an Islamic portfolio with an SRI portfolio, is called the ISRI portfolio. The study tries to find out if the ISRI portfolio is important by test the different ISRI portfolio's investment performance from the other portfolios; and second, find out performance compare to other portfolio in over time	Islamic-SRI portfolios outperformed ISSI, SRI and conventional. Investing in ISRI portfolios provides more flexibility in terms of investment style. Therefore, integrating Islamic screening into SRI/environmental, social and governance screening is a sensible way to implement Islamic values in "modern" investing.

*Fundamental and Role ESG in Islamic Finance and Business: A Literature Review and Content Analysis*

(Delle Foglie & Keshminder, 2022)	Challenges and opportunities of SRI sukuk toward financial system sustainability: a bibliometric and systematic literature review	The main objective of this paper is to analyse works of literature on SRI sukuk to highlight the potential for sukuk and or bond instrument in financing more sustainable financial systems (SFSs)	The lack of standardization in SRI is an obstacle to the widespread adoption of Islamic investing, as it is a result of the varying interpretations of Shariah and green. The majority of SRI sukuk are green sukuk (green bonds) that are employed to finance renewable energy and green real estate. Social-impact sukuk and ecological sukuk have the potential to significantly contribute to the financing of a more sustainable economic and financial system, including Islamic investing.
(Mohd Zain et al., 2024)	Integrating environmental, social and governance (ESG) principles with Maqasid al-Shariah: a blueprint for sustainable takaful operations	to establish a comprehensive framework for the incorporation of environmental, social, and governance (ESG) principles within the framework of Takaful operations, in accordance with the principles of Maqasid al-Shariah. The primary objective is to establish a strong foundation for the sustainable transformation of Takaful, which will be consistent with Islamic values and ethical finance.	Takaful operators are provided with a roadmap for improving their ethical credibility, societal impact, and environmental stewardship by the plan, which emphasizes the potential of harmonizing ESG principles with the principles of Maqasid al-Shariah.
(Ahmed W Alam et al., 2021)	Esg Activities and Bank Efficiency: Are Islamic Banks Better?	This study examines SRI industry methods to guide Islamic finance towards achieving maqāṣid al-Sharī'ah (Islamic law aims).	The overall ESG score has a significant positive impact on the technical efficiency of conventional banks but not on the technical efficiency of Islamic banks. Environmental activities have a strong and good effect on the technical efficiency of both conventional and Islamic banks. On the other hand, social activities only seem to have a big impact on conventional banks. We don't see any proof that the way banks are governed affects how well they work technically.
(Sairally, 2015)	Integrating environmental, social and governance (ESG) factors in Islamic finance: Towards the realisation of maqāṣid al-sharī'ah	This study examines SRI industry methods to guide Islamic finance towards achieving maqāṣid al-Sharī'ah (Islamic law aims). The study examines the current efforts, challenges, and expectations of the Islamic finance industry in relation to ESG support.	Overall, this paper argues that ESG values are an integral part of maqāṣid al-Sharī'ah and IFIs must not only comply with the Sharī'ah in law but also adhere to the spirit of the Sharī'ah, which seeks to achieve sustainable economic development and the general welfare of humanity creatures
(M Kabir Hassan et al., 2023)	Equity costs and risks in emerging markets: Are ESG and Sharia principles complementary?	They examine whether it increases Environmental-Social-Governance scores' implications on emerging country enterprises' equity costs and market risks.	The interaction between ESG scores and country Sharia concentration is always statistically significant and negatively associated with equity costs and market risks. They find strong evidence that market risks mediate company equity costs. They show a “insurance” effect of ESG ratings in strongly Sharia-concentrated emerging nations during the 2015–2016 oil shock.
(Rubbaniy et al., 2022)	Are ESG stocks safe-haven during COVID-19?	this study is to investigate safe-haven properties of environmental, social and governance (ESG) stocks in global and emerging ESG stock markets during the times of COVID-19	Based on the result, ESG portfolio is not safe heaven asset for investor. As a result of the study, it was found that the safe-haven properties of ESG indices during the current COVID-19 pandemic depend on the COVID-19 fear proxy.
(M K Hassan et al., 2022)	The religious fringe of Corporate Social Responsibility	The study examines the influence of Sharia principles on the Corporate Social Responsibility (CSR) capabilities of non-financial companies, as measured by Environmental, Social, and Governance (ESG) ratings.	Sharia-compliant firms are more likely to engage in sustainable and responsible practices, especially towards the environmental dimension. Evidence from a set of quasi-natural experiments, built around a range of significant natural disasters and social events, reveals a greater response of Sharia firms to CSR engagement, confirming the role played by faith-based business ethics in Islamic entities
(M Kabir Hassan et al., 2021)	The crossroads of ESG and religious screening on firm risk	Analysis ESG and <i>Sharia</i> screenings interact and influence market risks	The study's main results emphasize that ESG scores can help lower market risks for all companies. For companies that follow Sharia compliance, it is generally thought that Sharia compliance will lead to higher market risks, even if ESG scores are taken into account. This could support worries about less diversification, higher screening and monitoring costs, and stronger agency problems. But as ESG scores rise, the risk-lowering effect is higher for Sharia-compliant firms than for regular ones. This means that firms with a high commitment to CSR have lower market risks in the end. The second finding, which is true for all market risks, is only caused by the unique factor. Moreover, human right, innovation and community score most impact on ESG and shariah compliance

(Asl et al., 2022)	Carbon market and the conventional and Islamic equity markets: Where lays the environmental cleanliness of their utilities, energy, and ESG sectoral stocks?	The purposes of this study is compares the dependency of the conventional and the Shariah-compliant stock markets on the carbon market in order to have a pronounced judgment about the cleaner nature of their environmentally-related sectors.	carbon market is increasingly playing a leading role on both the conventional and Shariah-compliant stocks. Conventional utility equities rely heavily on carbon allowances, as do their Shariah-compliant counterparts and ESG stocks. Subsequently, the conventional energy equities exhibit the weakest negative correlation with carbon allowance, although it remains larger than that of their Shariah-compliant equivalents. The conventional sectors stocks demonstrate a stronger positive relationship with carbon allowance compared to their Shariah-compliant counterparts in the short-term (daily and weekly).
(Zuhroh, 2022)	Mapping Islamic Bank Governance studies: a systematic literature review	The purpose of this study is to explain the development of scientific publications on Islamic banking based on year, country, authors, and fields of science that are focused on mapping topics	The result showed that the sustainability of Islamic Bank Governance is for the benefit of concept development and Islamic banking practices.
(H Tekin & Burgazoglu, 2022)	How Do Corporate Sustainability and Pandemic Affect Cash Holdings in Muslim Countries?	To find out the influence of corporate sustainability (Environmental, Social, and Governance-ESG) on cash holdings of non-financial firms in Muslim countries from 2003 to 2021	the ESG and cash policies of firms in different industries tend to vary. Overall, firms in Muslim countries use cash holdings as a substitute for corporate sustainability without any changes in the COVID era.
(Hasan Tekin & Güçlü, 2023)	Environmental, social, governance investing, covid-19, and corporate performance in muslim countries	examine the impact of Environment, Social, and Governance–ESG investing on corporate performance of non-financial firms in Muslim countries during the pandemic.	During the COVID-19 time, the ESG combined score and its pillars have a big effect on how well a company does. In other words, firms with higher ESG are affected less than firms with lower ESG in terms of their success