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A Comparative Analysis of Existing Models for Assessing Sustainability in Islamic Banks

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Abstract

This study conducted a comparative analysis of existing models for assessing sustainability in Islamic banks, focusing on three prominent frameworks: the Sustainability Performance Index (SPI), the Quadruple Bottom Line (QBL), and the integration of Environmental, Social, and Governance (ESG) principles with Maqasid Shari'ah. While conventional ESG frameworks emphasize environmental and social governance, Islamic banks operate under Shariah law, necessitating the inclusion of Islamic ethical principles in sustainability assessment. The paper highlights the strengths and weaknesses of each model in addressing the unique sustainability challenges faced by Islamic banks. The SPI provides a holistic assessment incorporating both financial and non-financial indicators, but often lacks focus on Islamic normative aspects. The QBL (4Ps) framework introduces a spiritual dimension with the 'Prophet' component. The integration of ESG and Maqasid Shari'ah aligns sustainability with Islamic values but requires further research for practical application. This study aims to contribute to the development of a more comprehensive and effective sustainability assessment model for Islamic banking.

Keywords: *Islamic banks, sustainability assessment, Sustainability Performance Index (SPI), Quadruple Bottom Line (QBL), ESG-Maqasid Shari'ah Integration, Shariah compliance.*

I. Introduction

The concept of sustainability has become a cornerstone in the evolving landscape of the global financial sector (Pisano et al., 2012). This paradigm shift transcends traditional financial metrics, embedding environmental, social, and governance (ESG) considerations at the core of business operations (Xiao et al., 2023). For Islamic Banks, this integration of sustainability presents both unique challenges and opportunities, as these entities operate under the guiding principles of Shariah law, which inherently

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aligns with many aspects of the sustainability ethos (Yusuf et al., 2024).

The significant shift in incorporating sustainability into the financial world's core strategy in recent decades has been driven by growing recognition of the financial sector's role in addressing global environmental and social challenges (Jeucken, 2010). Financial institutions, including Islamic banks, have started to recognize that long-term profitability is inherently linked to sustainable practices (Alhadhrami & Nobanee, 2019). These practices include careful environmental stewardship, active engagement in social welfare, and adherence to robust and transparent governance structures. This evolution is not merely a response to regulatory pressures and market dynamics; it reflects a deeper understanding of the interconnectedness of financial systems with the broader societal and environmental context.

Islamic finance, with its unique ethical and moral foundation, offers a distinctive perspective on sustainability which strengthens environmental management and sustainable development, promoting justice, protection, and growth (Al-Roubaie & Sarea, 2019). Central to Islamic finance is the adherence to principles that promote social justice, equitable risk-sharing, and the prohibition of *Riba'* (usury) and speculative activities (Hayat & Malik, 2014; Ureta, 2020; Askari et al., 2012). This ethical framework naturally prohibits investment in industries considered harmful to society, such as alcohol and gambling, and emphasizes investments that contribute positively to society (Ullah et al., 2014). The principles of Islamic finance have an intrinsic alignment with the social and governance aspects of ESG (Jan et al., 2021; Nasution et al., 2022).

This paper aims to critically evaluate how we should assess the sustainability performance of Islamic banks, considering both traditional ESG factors and Islamic ethical principles. It will explore existing models for measuring the sustainability performance of Islamic banks and examine the strengths and weaknesses in implementing these models. This paper is structured as follows:

I. Introduction
II. Overview of Existing Models for Sustainability Assessment
III. The Strengths and Weaknesses
IV. Conclusion
V. References

II. Overview of Existing Models for Sustainability Assessment

Assessing the sustainability performance of Islamic banks requires a more nuanced approach than simply employing conventional ESG frameworks (Yusuf et al., 2024). Islamic Banks operate under the guiding principles of Shariah law, which necessitate incorporating Islamic ethical considerations alongside environmental, social, and governance factors (Muhamad et al., 2022; Agustin et al., 2023). This section explores the current three leading models used for sustainability assessment in Islamic banks:

a. Sustainability Performance Index (SPI)

According to Ammar et al. (2022), the Sustainability Performance Index (SPI) is a comprehensive tool designed to evaluate the sustainability performance of Islamic banks. The SPI is developed based on a multi-attribute utility approach, which considers the viewpoints of various stakeholders while assessing sustainability and Shariah compliance. A thorough procedure that involves a review of the literature, discussions with banking, academic, and Shariah experts, and expert interviews to compile the index is used to create the index.

The SPI serves as a performance evaluation tool for Islamic banking companies, offering them a window into their adherence to Islamic finance principles over a predefined time period. Empirical data observed by Ammar et al. (2022), however, reveals that the banks that were employed in the implementation do not score highly on the index, pointing to a deficiency in Islamic normative elements and a poor commitment to sustainability. To be more precise, these banks do not really care about environmental and social sustainability; instead, they are primarily concerned with economic sustainability.

The SPI examines the sustainability of banking operations from the viewpoints of the key stakeholders in addition to whether or not they comply with Shariah. Through the integration of both financial and non-financial performance indicators, this dual focus enables the SPI to offer a more comprehensive assessment of the performance of an Islamic bank.

b. Quadruple Bottom Line (QBL) Framework:

The Quadruple Bottom Line (QBL) framework, developed by Hamidi & Worthington (2021), is an innovative novel approach that builds upon the established Triple Bottom Line (TBL) concept (Elkington, 1997), which traditionally measures an organization's performance across three dimensions (3Ps): economic (prosperity), environmental (planet), and social (people) impacts. The QBL introduces a fourth dimension 'Prophet', which incorporates the ethical and spiritual aspects of decision-making and performance, particularly relevant to Islamic finance.

This fourth dimension of 'Prophet' reflects the religious teachings and expectations of stakeholders, emphasizing the importance of adhering to Islamic principles and values in business operations. Not just returns, but impact and faith drive this, reflecting the core of Islamic finance. This is particularly important for Islamic banks, which are expected to operate in a manner that is consistent with Islamic ethical principles, such as promoting social justice, avoiding harm (harm), and ensuring fair and equitable treatment for all.

Hamidi & Worthington (2021) used the QBL (4Ps) framework to apply this framework to ten Islamic banks across the world[1] and discovered that there was considerable space for improvement in all sustainability-related areas. Furthermore, Hamidi & Worthington (2023) used regression analysis to test the QBL framework by surveying 504 that was taken from stakeholders of Islamic banks in Indonesia. The stakeholders included depositors, borrowers, practitioners, academia, regulators, Shariah advisers, stockholders, and the general community. According to the findings, stakeholders considered prosperity to be the most significant dimension, followed by Prophet and Planet. These studies show that the "Prophet" feature strengthens the QBL

[1] Al-Rajhi Bank (ARB, Saudi Arabia), Al-Baraka Islamic Bahrain (AIB, Bahrain), Meezan Bank (MB, Pakistan), Boubyan Bank (BB, Kuwait), Bank Muamalat Indonesia (BMI, Indonesia), Jordan Islamic Bank (JIB, Jordan), Emirates Islamic Bank (EIB, UAE), Kuveyt Türk Katilim Bankasi (KTKB, Turkey), Qatar Islamic Bank (QIB, Qatar), and Bank Muamalat Malaysia Berhard (BMBM, Malaysia).

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framework, which Islamic banks use to promote moral and sustainable finance.

c. Integration of ESG and *Maqasid Shari'ah*

Muhamad et al. (2022) made an argument in which for Islamic banks to focus on societal welfare by aligning their performance measurement with Islamic economic principles. Simultaneously, with the Sustainable Development Goals (SDG) 2030 agenda, ESG principles have become central to sustainability reporting and investor concerns. ESG and Islamic finance principles overlap heavily, sharing common ground in responsibility, accountability, and stewardship towards environmental and human wellbeing, which aligns with the principle of *maslahah* in *Maqasid Shari'ah*.

By merging financial and non-financial performance and using Islamic banks' ultimate goal as the major reference, this method would enable a more thorough assessment of Islamic banks' performance. It would also more successfully handle sustainability concerns. It concludes that Islamic banks' performance would be further strengthened if *Maqasid Shari'ah* and the sustainability objective were fulfilled in the performance measurement index.

ESG factors, according to Agustin et al. (2023), encompass a wide range of topics that have not typically been included in financial research, such as how businesses manage their value chains and response to climate change. However, the goals of Islamic law, known as *Maqasid Shari'ah*, are to safeguard property, intellectual property, life, religion, and ancestry. Islamic banking can advance societal welfare, safeguard the environment, and benefit humanity by incorporating ESG and *Maqasid Shari'ah* (Muhamad et al., 2022).

III. The Strengths and Weaknesses

Model	Strengths	Weaknesses	Critical Analysis
Sustainability Performance Index (SPI)	- Integrates both financial and non-financial indicators, providing a holistic view of sustainability.	- Implementation often reveals poor scores on environmental and social indicators, highlighting potential gaps.	While SPI is holistic, its current application may not fully reflect the unique characteristics of Islamic banks. It requires refinement to better align with Islamic principles.
	- Ensures performance aligns with Islamic principles and banking standards.	- Emphasizes financial performance over environmental and social dimensions.	
	- Incorporates viewpoints from various stakeholders, ensuring an inclusive assessment.	- Lacks strong emphasis on Islamic normative aspects such as spirituality and ethics.	
Quadruple Bottom Line (QBL) Framework	- Adds the unique "Prophet" dimension, integrating Islamic ethical and spiritual aspects from *Maqasid Shari'ah*.	- Studies are mostly based on small regional samples, limiting its generalizability globally.	A strong model for Islamic finance, as it is a pioneering approach, combining the triple bottom line's focus on economic, social, and environmental sustainability with the spiritual and ethical imperatives rooted in Islamic law.
	- Builds on the Triple Bottom Line, incorporating economic, social, environmental, and ethical performance, aligned with Islamic values.	- Difficulty in quantifying spiritual and religious outcomes in a standardized, objective way.	
	- Addresses the broad perspectives of Islamic bank stakeholders, considering social, religious, and economic concerns.	- May not resonate well in regions with secular governance or outside of Islamic finance contexts.	
ESG-Maqasid Integration	- Combines ESG's global sustainability framework with Islamic finance principles from *Maqasid Shari'ah*.	- Lacks a well-established, practical model for application in Islamic banks, requiring more research.	Integration of ESG and Islamic principles offers great potential but lacks practical models for application. It requires further development to be a practical tool for Islamic banks' sustainability assessment.
	- Emphasizes accountability, stewardship, and public interest (*maslahah*), ensuring social equity.	- Harmonizing the spiritual goals of *Maqasid Shari'ah* with measurable ESG outcomes can be challenging.	
	- Integrates well with the Sustainable Development Goals (SDGs), making it appealing to ethical investors.	- Requires more clear, actionable steps for Islamic banks beyond the theoretical framework.	

IV. Conclusion

This study examined three existing models for assessing sustainability in Islamic banks, which are the Sustainability Performance Index (SPI), the Quadruple Bottom Line (QBL), and the integration of Environmental, Social, and Governance (ESG) principles with *Maqasid Shari'ah*. Each model presents distinct advantages and shortcomings, reflecting the complexities of applying sustainability frameworks in the Islamic banking sector, which must adhere to both financial and Shariah principles.

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The SPI, while offering a holistic view through the integration of financial and non-financial indicators, falls short in addressing Islamic normative values, particularly in relation to environmental and social sustainability. The QBL framework expands on the conventional Triple Bottom Line by incorporating the ‘Prophet’ dimension, which aligns closely with Islamic ethical and spiritual values. The integration of ESG principles with *Maqasid Shari’ah*, while theoretically promising, remains underdeveloped in practical application and requires further refinement before it can serve as a viable tool for sustainability assessment in Islamic banks.

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