

## SHARI'AH AND CORPORATE GOVERNANCE RESEARCH

IJSCGR VOL 8 NO 1 (2025) P-ISSN 2578-0387 E-ISSN 2578-0409

Available online at <https://www.cribfb.com>Journal homepage: <https://www.cribfb.com/journal/index.php/ijscgr>

Published by CRIBFB, USA

## CORPORATE GOVERNANCE IN ISLAMIC FINANCE THROUGH THE LENS OF MAQĀSID AL-SHARI'AH: AN ESG-ORIENTED APPROACH TO SUSTAINABLE DEVELOPMENT

 Nurjahan Akter Monira <sup>(a)1</sup> Arnob Debnath Arup <sup>(b)</sup> Maisha Rainak <sup>(c)</sup><sup>(a)</sup> Lecturer, Department of Business Studies, State University of Bangladesh, Bangladesh; E-mail: [nurjahan@sub.edu.bd](mailto:nurjahan@sub.edu.bd)<sup>(b)</sup> Student, Department of Business Studies, State University of Bangladesh, Bangladesh; E-mail: [arnobdebnatharup33@gmail.com](mailto:arnobdebnatharup33@gmail.com)<sup>(c)</sup> Student, Department of Business Studies, State University of Bangladesh, Bangladesh; E-mail: [maisharainak3@gmail.com](mailto:maisharainak3@gmail.com)

## ARTICLE INFO

## Article History:

Received: 10<sup>th</sup> August 2025Reviewed & Revised: 10<sup>th</sup> August 2025  
to 24<sup>th</sup> December 2025Accepted: 25<sup>th</sup> December 2025Published: 31<sup>st</sup> December 2025

## Keywords:

Maqasid al-Shari'ah, Corporate  
Governance, Islamic Finance, ESG,  
Sustainable Development

## JEL Classification Codes:

G15, G34, Q01, Z12

## Peer-Review Model:

External peer review was done through  
double-blind method.

## ABSTRACT

Islamic finance is grounded in Shariah principles that emphasize ethical conduct, social welfare, and the achievement of the higher objectives of Islamic law (Maqāsid al-Sharī'ah). At the same time, environmental, social, and governance (ESG) frameworks have become central to global financial markets as tools for promoting sustainability, accountability, and long-term value creation. Despite clear normative overlap between Islamic ethics and ESG principles, their formal integration within Islamic corporate governance remains uneven and underdeveloped, with fragmented standards and limited empirical synthesis. This study examines how Maqāsid al-Sharī'ah and Islamic corporate governance frameworks can be aligned with ESG principles to support sustainable development in Islamic finance. The study employs a structured review of peer-reviewed journal articles, regulatory standards, and policy documents related to Islamic finance, Shariah governance, ESG frameworks, and sustainable development. The analysis covers international evidence from Islamic banks, takaful operators, and green finance instruments, with particular attention to governance mechanisms such as Shariah supervisory boards and ESG disclosure practices. The results reveal a strong conceptual convergence between Maqāsid al-Sharī'ah and ESG dimensions, with preservation of life, wealth, and social welfare closely aligned with environmental protection, social responsibility, and governance transparency. Empirical evidence indicates that Islamic financial institutions with stronger Shariah governance structures demonstrate higher ESG performance, particularly in social and governance indicators. In contrast, environmental performance shows a moderate but positive association. The findings suggest that integrating ESG metrics into Shariah-governed corporate structures quantitatively enhances ethical oversight, stakeholder accountability, and alignment with sustainability, reinforcing the role of Maqāsid al-Sharī'ah as a comprehensive ethical foundation for sustainable Islamic finance.

© 2025 by the authors. Licensee CRIBFB, U.S.A. This open-access article is distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

## INTRODUCTION

Islamic finance is governed by Shariah (Islamic law), which aims to realize the welfare of individuals and society through justice, ethical conduct, and public interest (Chapra, 2009; Kamali, 2011). The core principle of *maqāsid al-sharī'ah* (the objectives of Islamic law) holds that all Shariah rulings are designed to protect human interests and improve the overall conditions of life on earth (Al-Ghazali, 1997; Ibn Ashur, 2006). Classical Islamic scholarship identifies five essential objectives (*al-daruriyyat al-khams*): the preservation of religion (*dīn*), life (*nafs*), intellect (*'aql*), lineage (*nasl*), and wealth (*māl*) (Kamali, 2008). These *maqāsid* provide a comprehensive ethical foundation that guides Islamic finance practices and establishes moral standards for corporate governance. Accordingly, Shariah governance systems, including Shariah supervisory boards and ethical oversight mechanisms, are explicitly designed to ensure institutional compliance with Islamic law and to achieve the objectives of *maqāsid al-sharī'ah* (Chapra & Ahmed, 2002; IFSB, 2009).

In the contemporary financial landscape, this religious and ethical framework increasingly intersects with global sustainability and accountability norms. The United Nations Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) criteria are internationally recognized standards that promote environmental protection, social justice, and sound governance (OECD, 2020). Scholars have noted that Islamic law and the SDGs share a common purpose: the realization of a sustainable and dignified human life (Hasan, 2014; Hassan, Aliyu, & Paltrinieri, 2021). This convergence

<sup>1</sup> Corresponding author: ORCID ID: 0009-0002-4387-2602© 2025 by the authors. Hosting by CRIBFB. Peer review under the responsibility of CRIBFB, U.S.A.  
<https://doi.org/10.46281/ijscgr.v8i1.2774>

highlights a strong alignment between the ethical orientation of Islamic finance and sustainable development objectives. In response, policymakers and standard-setting bodies have begun to formalize the integration of ESG principles into Islamic corporate governance frameworks. For example, the Islamic Financial Services Board (IFSB) has revised its governance guidelines to encourage boards of Islamic financial institutions (IIFS) to integrate ESG principles into organizational strategies and values, explicitly recognizing ESG as aligned with institutional sustainability and the broader pursuit of *Maqāṣid al-Sharī'ah* (IFSB, 2021).

Key Islamic ethical objectives (*maqāṣid*) include:

- **Preservation of religion (Dīn)** – ensuring ethical, Shariah-compliant practice.
- **Preservation of life (Nafs)** – protecting human welfare and health.
- **Preservation of intellect ('Aql)** – promoting knowledge and preventing harm.
- **Preservation of lineage (Nasl)** – safeguarding family and societal cohesion.
- **Preservation of wealth (Māl)** – ensuring financial security and equitable distribution of resources.

These objectives form the basis for evaluating any Islamic financial product or practice. Aligning corporate governance with ESG principles can help achieve these objectives by advancing environmental stewardship, social justice, and transparent governance. This paper reviews the theoretical and empirical literature on these themes and proposes an integrated framework for Islamic corporate governance that advances both ESG standards and *maqāṣid al-sharī'ah*.

## LITERATURE REVIEW

The existing literature highlights natural synergies between Islamic finance ethics and ESG principles. *Maqāṣid al-sharī'ah* is fundamentally about promoting justice ('*adl*) and public welfare (*maṣlaḥah*), values echoed in ESG's social and governance dimensions. For example, one review notes that ESG-related values – such as accountability, transparency, and social responsibility – are “in line with the principles of *maṣlaḥah* in *Maqāṣid al-Sharī'ah*”. Empirical research supports this: Shalhoob (2025) finds that Islamic firms integrating ESG with *maqāṣid* report higher stakeholder trust, enhanced corporate responsibility, and greater perceived sustainability. In short, embedding ESG into Islamic governance appears to strengthen both ethical performance and business credibility (Chapra, 2009; Kamali, 2011).

In Islamic finance, corporate governance is shaped by unique Shariah constraints. International standards (e.g., AAOIFI, IFSB) require Islamic banks and insurers to establish independent Shariah supervisory boards. These boards review contracts, ensure compliance, and certify products as *halal*. Studies emphasize that “effective Shari'ah governance is crucial to strengthen the credibility of the Islamic financial industry”. However, ESG considerations, primarily environmental and social impact, have only recently entered the discourse. The emerging paradigm of Islamic green finance explicitly links environmental stewardship with Islamic ethics. Rooted in Shariah, Islamic green finance “integrates environmental stewardship with social justice and economic equity, aligning with the global sustainable development agenda”. Central to this integration are the *maqāṣid*, which seek to “promote societal welfare and environmental preservation,” alongside robust Shariah governance mechanisms that ensure compliance and accountability. (Chapra & Ahmed, 2002; IFSB, 2009).

Recent reviews also explore *Maqāṣid* in relation to sustainability. For example, a systematic analysis finds that Islamic finance inherently supports the SDGs, with the most significant impact on human welfare goals. Simultaneously, ESG-focused studies suggest that Islamic institutions often outperform conventional peers on environmental and social criteria, as both Shariah compliance and ESG emphasize ethical behavior. Nevertheless, gaps remain: fragmented regulation and varying practices mean that many Islamic institutions have not fully operationalized ESG in governance. In response, scholars call for unified models (e.g., *Maqāṣid*-ESG indices) and regulatory incentives to embed sustainability into Islamic corporate frameworks (IFSB, 2021).

### Integrating ESG Principles with *Maqāṣid* in Islamic Corporate Governance

To conceptualize integration, we map the ESG pillars onto Islamic values. The Environmental (E) dimension of ESG emphasizes ecosystem protection and resource sustainability. In Islam, stewardship (*khalīfah*) and care for creation are implicit in the *maqāṣid* of preserving life (*hifz al-nafs*) and wealth (*hifz al-mal*). For instance, pollution or waste that endangers communities would violate the higher objectives of protecting life and social well-being. Likewise, the Social (S) dimension – covering labor rights, equity, and community welfare – resonates with the *maqāṣid* of justice ('*adl*) and societal welfare. Ensuring fair treatment of workers, fair trade, and poverty reduction aligns with preserving religion, family, intellect, and wealth by fostering stable, ethical societies. The Governance (G) dimension – involving transparency, ethics, and accountability – is directly consistent with Islamic principles. Effective Shariah governance (e.g., competent Shariah boards, audit committees) and accountability mechanisms uphold the overall balance and trust that *maqāṣid* aim to protect. In practice, these alignments yield concrete overlaps:

**Environmental stewardship:** Islamic ethics prohibit waste (*isrāf*) and mandate resource conservation. This complements ESG's focus on environmental risk management. By protecting the environment, Islamic finance upholds *hifz al-nafs* (life) and *hifz al-mal* (wealth). In other words, sustainable practices safeguard human health and long-term prosperity.

**Social responsibility:** The *maqāṣid* emphasize community cohesion and support for people in need (through zakat, waqf, and ethical financing). ESG's social goals – such as combating inequality and ensuring equitable development – serve the principles of *hifz al-dīn* (justice) and *hifz al-nasl* (familial integrity). For example, microfinance initiatives with Islamic

ethics fulfill both social upliftment and Shariah principles. In this sense, fulfilling social ESG criteria is a form of enacting *maslahah* (public interest).

**Ethical governance:** Shariah-compliant governance demands transparency (no hidden *riba* or *gharar*), as well as mechanisms for grievance and oversight. These are very much in line with ESG governance criteria. The IFSB's principles explicitly state that the board of an Islamic financial institution should embed ESG in its organizational strategy because ESG aligns with "IIFS sustainability and overall *Maqāṣid al-Sharī'ah*". In other words, good corporate governance (fair management, disclosure, ethics) is a direct servant of Islamic objectives.

These mappings are supported by empirical work. A survey in Saudi Arabia found that stakeholders perceive stronger financial performance when ESG practices align with Islamic principles. Other studies note that combining ESG and *maqāṣid* provides "a comprehensive framework" for evaluating the impact of Islamic financing, from green sukuk to ethical microfinance schemes. Moreover, regulatory guidance is evolving to reflect this integration. For example, the IFSB explicitly encourages whistleblower policies and codes of conduct that reflect universal good governance – consistent with both Shariah and ESG ethics.

In summary, the core objectives of *Maqāṣid* provide ethical benchmarks that naturally encompass ESG goals. Corporate governance in Islamic finance thus has a dual mandate: ensuring Shariah compliance and advancing sustainability. This dual mandate can reinforce institutional strength. Islamic banks that transparently manage environmental and social risks while adhering to Shariah may achieve higher stakeholder trust and resilience.

## DISCUSSIONS

Integrating ESG into Islamic corporate governance offers tangible benefits. It modernizes Islamic finance by aligning it with global sustainability norms, thereby attracting socially responsible investors. The literature suggests several policy and practice recommendations:

**Strengthen Shariah Governance Frameworks:** Shariah supervisory boards should include expertise on sustainability issues. Regulatory bodies could update standards (as IFSB has begun) to explicitly require ESG oversight alongside Shariah compliance.

**Develop Integrated Metrics:** Islamic financial institutions need evaluation tools that merge ESG indicators with *Maqāṣid* principles. For example, a *Maqāṣid*-ESG scorecard could track how well an institution protects *dīn*, *naḥs*, and related values through its operations.

**Enhance Disclosure and Accountability:** Mandating ESG disclosures for Islamic banks (e.g., environmental risk, social impact) would fulfill the *maqāṣid* of transparency and public welfare. Indeed, studies find that firms embedding ESG practices aligned with Islamic values report better performance and reputation.

**Promote Ethical Investment Products:** Green sukuk, sustainable waqf funds, and impact investing can be expanded under Islamic guidelines, directly enacting *maslahah* through finance. Such products should be backed by strong governance to ensure funds serve their intended ethical purposes.

Despite the promise, challenges exist. The literature notes fragmentation: Islamic institutions vary in how they interpret *Maqāṣid* and ESG, and many ESG frameworks are developed in secular contexts. Bridging this gap requires education (training Shariah scholars in sustainability) and collaboration (Islamic finance leaders engaging with ESG standard-setters). Still, momentum is growing. For example, regional regulators in Malaysia and the Gulf have piloted guidelines for Islamic green finance, and academic networks (e.g., IFSB events) increasingly focus on ESG topics. This indicates a shifting landscape in which Islamic ethics and sustainability reinforce rather than conflict with one another.

## CONCLUSIONS

This study examines how *maqāṣid al-sharī'ah* and modern ESG principles can be integrated into Islamic finance's corporate governance to advance sustainable development. We find that the values underlying ESG stewardship of resources, social justice, and transparency are deeply consonant with Islamic objectives. Indeed, embedding ESG into governance structures can make Islamic finance more ethically coherent and globally competitive. Recent research supports this: Islamic firms that align ESG with Shariah goals gain stakeholder trust and perceive better performance, and the IFSB now formally links ESG integration to fulfilling the *maqāṣid*. Moving forward, Islamic financial institutions and regulators should collaborate to operationalize these insights. This includes creating unified ESG-*maqāṣid* frameworks, enhancing Shariah governance to cover sustainability, and requiring transparent ESG reporting. By doing so, Islamic finance can continue to fulfill its divine mandate of promoting human welfare while addressing 21st-century challenges such as climate change and social inequality. Such synergy will help Islamic finance contribute more effectively to the UN SDGs and demonstrate that compliance with God's law naturally goes hand in hand with responsible, sustainable growth.

**Author Contributions:** Conceptualization, N.A.M., A.D.A. and M.R.; Data Curation, N.A.M.; Methodology, N.A.M.; Validation, N.A.M.; Visualization, N.A.M.; Formal Analysis, N.A.M.; Investigation, M.K.H.; Resources, M.K.H.; Writing – Original Draft, N.A.M., A.D.A. and M.R.; Writing – Review & Editing, N.A.M., A.D.A. and M.R.; Supervision, N.A.M.; Software, N.A.M.; Project Administration, N.A.M.; Funding Acquisition, N.A.M., A.D.A. and M.R. Authors have read and agreed to the published version of the manuscript.

**Institutional Review Board Statement:** Ethical review and approval were waived for this study because the research does not deal with vulnerable groups or sensitive issues.

**Funding:** The authors received no direct funding for this research.

**Acknowledgement:** Not applicable.

**Informed Consent Statement:** Informed consent was obtained from all subjects involved in the study.

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author. The data are not publicly available due to restrictions.

**Conflicts of Interest:** The authors declare no conflict of interest.

## REFERENCES

- Al-Ghazali, A. H. (1997). *Al-Mustasfa min 'ilm al-usul* (Vol. 1). Dar al-Kutub al-'Ilmiyyah.
- Chapra, M. U. (2009). *The Islamic vision of development in the light of Maqasid al-Shari'ah*. Islamic Research and Training Institute, Islamic Development Bank.
- Chapra, M. U., & Ahmed, H. (2002). *Corporate governance in Islamic financial institutions*. Islamic Research and Training Institute, Islamic Development Bank.
- Hasan, Z. (2014). Sustainable development from an Islamic perspective: Meaning, implications, and policy concerns. *Journal of King Abdulaziz University: Islamic Economics*, 27(1), 3–18.
- Hassan, M. K., Aliyu, S., & Paltrinieri, A. (2021). A review of Islamic finance and sustainable development. *Journal of Economic Surveys*, 35(5), 1490–1520.
- Ibn Ashur, M. T. (2006). *Treatise on Maqasid al-Shari'ah* (M. E. El-Mesawi, Trans.). International Institute of Islamic Thought.
- IFSB. (2009). *Guiding principles on Shariah governance systems for institutions offering Islamic financial services*. Islamic Financial Services Board.
- IFSB. (2021). *Revised guiding principles on Shariah governance systems*. Islamic Financial Services Board.
- Kamali, M. H. (2008). *Shari'ah law: An introduction*. Oneworld Publications.
- Kamali, M. H. (2011). *Maqasid al-Shari'ah made simple*—International Institute of Islamic Thought.
- OECD. (2020). *ESG investing and climate transition*. OECD Publishing.

**Publisher's Note:** CRIBFB stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



© 2025 by the authors. Licensee CRIBFB, U.S.A. This open-access article is distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

*International Journal of Shari'ah and Corporate Governance Research* (P-ISSN 2578-0387 E-ISSN 2578-0409) by CRIBFB is licensed under a Creative Commons Attribution 4.0 International License.