P-ISSN 2089-3566
JESI
E-ISSN 2503-1872

Jurnal Ekonomi Syariah Indonesia (JESI)
ISSN : 2503-1872 (e) & 2089-3566 (p)
Volume 16, Nomor 2, 2026, 139-151
DOI : 10.21927/jesi.2026.16(2).139-151

Implementation of Green Banking and Sharia Compliance in Enhancing Islamic Bank Value (Maqhasid Sharia Index) in Indonesia's Islamic Commercial Banks

Nugroho Heri Pramono*, Eka Rima Prasetya, Desma Zadmi Nadia Putri

Department of Accounting, Faculty of Business and Economics, Pamulang University, Jalan Surya Kencana No. 1, Jawa Barat, 15417, Indonesia

ABSTRACT

Purpose: This study aims to empirically evaluate the influence of green banking practices and sharia compliance on Islamic Bank Value, as proxied by the Maqhasid Sharia Index (MSI), as well as to examine the moderating role of sharia compliance in influencing that relationship within Indonesia's Islamic commercial banks. **Methodology**: Employing a quantitative census approach, this research analyzes 33 observations collected from 11 Islamic commercial banks in Indonesia over the three years from 2021 to 2023. The data, sourced from annual and sustainability reports, were tested using Moderated Regression Analysis (MRA). **Results**: The findings indicate that green banking initiatives significantly enhance Islamic bank value by aligning operations with environmental and social goals. Conversely, sharia compliance has no significant direct impact on the MSI due to an industry-wide "ceiling effect". Crucially, sharia compliance acts as a negative moderator, significantly weakening the positive relationship between green banking and bank value. **Conclusion**: While green banking plays a vital role in fulfilling the Maqasid Sharia framework, traditional sharia compliance has a direct positive impact on corporate value but unexpectedly constrains sustainability outcomes. This negative moderation suggests that current compliance models lean toward normative, formalistic rules, creating a legalistic focus that distracts from proactive sustainability integration. **Implications:** The study underscores that banking regulators and management must go beyond procedural compliance. There is a critical necessity to harmonize theological pillars with green strategies, shifting from "negative screening" (avoiding prohibited sectors) to substantive integration of global ESG standards within the sharia framework. **Originality:** Underpinned by Resource-Based Theory, this research introduces a novel perspective by treating sustainability and sharia compliance as interacting operational resources. It reveals a previously unexamined strategic tension in Islamic finance: rigid regulatory adherence can induce organizational rigidity that inadvertently hampers proactive environmental innovation.

ARTICLE INFO

Keywords:
green banking, islamic bank value, maqhasid sharia index, sharia compliance

Article info :
Received January 21, 2026
1st revision April 08, 2026
2nd revision April 13, 2026
Accepted May 13, 2026
Available online August 24, 2026
Published August 24, 2026

JEL Code: D13, I31, J2

*Corresponding Author at Accounting Department, Faculty of Business and Economics, Pamulang University, Jalan Surya Kencana No. 1, Jawa Barat, 15417, Indonesia
mail address: dosen03074@gmail.com

INTRODUCTION

Global climate change demands active contributions from the banking sector to support sustainable development. To provide concrete support, the Indonesian government, through the Financial Services Authority (OJK), issued OJK Regulation (POJK) Number 51/POJK.03/2017, which mandates Financial Services Institutions (LJK), issuers, and public companies to implement sustainable finance to align economic, social, and environmental interests (Financial Services Authority, 2017). One of its main pillars is green banking, which refers to banking practices that encourage clients to reduce carbon emissions in their business operations (Tara, Singh, and Kumar, 2015). Since the enforcement of this regulation, banks in Indonesia have gradually started to implement green banking practices and publish them in their sustainable finance reports. In terms of concrete realization, three major banks, PT Bank Mandiri (Persero) Tbk, PT Bank Central Asia Tbk, and PT Bank Negara Indonesia (Persero) Tbk disbursed sustainable credit totaling Rp412 trillion in 2022, which accounted for approximately 26% of their total credit distribution (Rahayu and Pratama, 2023).

Based on article 7 paragraph (1) of POJK Number 51/2017, the implementation of sustainable finance focuses on three priorities, including the development of sustainable financial products and services, the capacity building of internal LJK human resources, and organizational adjustments involving risk management, governance, and standard operating procedures. However, in practice, this implementation faces challenges, such as the low awareness of business actors regarding green projects, which limits the demand for green financing (Noor and Wulandhari, 2023). This limited demand for green financing is further reinforced by the findings of Fadilah (2024) and Husen and Fitrijanti (2024), indicating that regulatory compliance within banking has not been fully optimal.

In the context of Islamic banking, green banking is not merely an environmental initiative but also an integral part of achieving maqhasid sharia (the objectives of Islamic law). To operate optimally, these practices must be accompanied by sharia compliance, which serves as a mechanism for accountability in providing compliance information to sharia principles (Nomran and Haron, 2020). When Islamic banks prudently comply with sharia principles, they will implement green banking wisely, thereby realizing maqhasid sharia. According to Imam Ghazali, maqhasid sharia encompasses five essential protections, namely preserving faith, human life, intellect, lineage, and wealth (Julia et al., 2016). However, Jan et al., (2021) underscores that most Islamic financial institutions only practice negative compliance by avoiding prohibited sectors like alcohol and gambling, instead of positive compliance like investing in sustainable and ESG projects. Consequently, corporate value does not automatically increase without substantive integration into business strategies.

Prior studies on green banking demonstrate varied empirical results across different financial and operational metrics. For instance, green banking adoption practices (GBAP) exert a positive effect on the environmental, operational, and financial performance of Islamic banks in Pakistan (Aslam and Jawaid, 2023). Similarly, the green banking index positively affects the profitability of banks listed on the SRI KEHATI Index (Rachman and Suadi, 2021), and its proxies such as the number of ATM units, green banking disclosure index (GBDI), and M-Banking transaction frequency, have a positive simultaneous impact on profitability (Asfahaliza and

Anggraeni, 2022).

Conversely, Ratnasari et al. (2021) discovered that green banking policies negatively affect banking profitability, while Ernawati and Utami (2024) found that green banking has no effect on financial performance as proxied by ROA. In terms of determinants, corporate governance positively influences green banking in Iraqi Islamic banking (Issa et al., 2022), while customer and competitor pressure also yields a positive effect in Pakistan (Bukhari et al., 2020). Furthermore, corporate social responsibility (CSR), green accounting, and financing growth partially affect green banking in Regional Development Banks (Mujiatun and Sari, 2022), while practical execution is demonstrated by Bank Muamalat Indonesia through eco-friendly financing distribution and environmental bank operations (Ria et al., 2023). Regarding its interaction with maqhasid sharia, Khasanah and Laela (2024) found that green accounting has a negative effect on the performance of maqhasid sharia, whereas Dewi et al. (2024) revealed that green banking moderates the effect of solvency on the financial performance of Sharia commercial banks.

Although extensive research examines the influence of green banking on profitability (Asfahaliza and Anggraeni, 2022; Rachman and Suadi, 2021), its integration with Islamic banking principles specifically sharia compliance and the maqhasid sharia framework remains severely limited. Prior studies on sharia compliance predominantly address governance, risk management, and financial disclosures rather than sustainability-oriented banking strategies (Azmi et al., 2020). Underpinned by the Resource-Based Theory (RBT), which stresses that organizations leveraging unique and inimitable resources can achieve a sustainable competitive advantage (Barney, 2018), this study introduces a novel perspective by evaluating the combined impact of green banking and sharia compliance on Islamic bank value through the maqhasid sharia index. This research extends the work of Azmi et al. (2020), who examined sharia compliance as a moderating factor for the Islamic Social Reporting Index on maqhasid sharia from 2014 to 2018. Distinct from Azmi et al. (2020), this study shifts the analytical focus to environmental performance via green banking practices from 2019 to 2023. It reveals a unique dimension: while green banking positively affects the maqhasid sharia index, sharia compliance unexpectedly weakens this relationship, indicating that formal regulatory adherence may sometimes restrict proactive sustainability initiatives.

Based on this background, the study aims to fulfill three primary research objectives. First, the study intends to empirically prove the positive influence of green banking practices on Islamic Bank Value as proxied by the maqhasid sharia index. Second, it seeks to empirically prove the positive influence of sharia compliance on Islamic Bank Value as proxied by the same index. Third, it aims to empirically prove the moderating role of sharia compliance in influencing Islamic Bank Value as proxied by the maqhasid sharia index. By achieving these objectives, this research offers both theoretical and practical benefits. Theoretically, this study contributes positively to the field of sharia accounting, particularly regarding green banking practices and sharia compliance as a strategic approach to enhance Islamic Bank Value and fulfill the bank's sharia objectives (maqhasid sharia). Practically, the findings motivate Islamic banks to improve their environmental accountability performance, provide a framework for stakeholders to assess environmental performance, and serve as an evaluative reference for policymakers to formulate more detailed regulations on green banking practices and sharia compliance.

LITERATURE REVIEW

Resource-Based Theory

The Resource Based Theory (RBT), pioneered by Wernerfelt (1984), posits that a firm's internal bundle of tangible and intangible assets dictates its strategic direction. When leveraged properly, these unique resources can generate a sustainable competitive advantage, especially when aligned with social and environmental challenges (Barney, 2018). In the realm of Islamic banking, green banking practices and sharia compliance function as distinct, intangible internal resources. Viewed through the Resource Based View (RBV) and its VRIN framework (valuable, rare, inimitable, and non-substitutable), these practices can theoretically drive an institution toward fulfilling the broader objectives of Islamic law, or maqhasid sharia.

However, a critical theoretical tension emerges when evaluating these resources simultaneously. While conventional RBT implies that accumulating complementary capabilities enhances organizational performance, the intersection of regulatory sharia compliance and proactive environmental innovation may introduce structural constraints. Rigid adherence to formal rules can divert administrative focus and capital away from complex, long-term sustainability initiatives. This tension helps explain the highly fragmented and contradictory empirical landscape found in contemporary literature. On one hand, several studies support the positive capability view: green banking adoption practices (GBAP) or indexes have been shown to enhance environmental, operational, and financial performance in various regions (Aslam and Jawaid, 2023; Rachman and Suadi, 2021), while simultaneous channels like digital banking infrastructure similarly boost profitability (Asfahaliza and Anggraeni, 2022).

On the other hand, competing empirical evidence reveals that green policies can generate a negative impact on banking profitability (Ratnasari et al., 2021) or yield entirely insignificant effects on financial returns like ROA (Ernawati and Utami, 2024). Consequently, green banking and sharia compliance should not be viewed as guaranteed drivers of corporate value, but rather as complex internal mechanisms whose performance outcomes depend heavily on how strategic tensions are managed.

Green Banking and Maqhasid Sharia: Synergies and Constraints

Green banking represents an operational innovation designed to minimize carbon emissions, conserve natural resources, and transition financial systems toward eco-friendly technologies (Rehman et al., 2020). This dual dimensional structure requires banks to digitize internal operations to achieve paperless processes while simultaneously enforcing environmental standards during credit disbursement (Park and Kim, 2020). From an Islamic economic perspective, this environmental focus maps directly onto the maqhasid sharia index. Developed by Rusydiana dan Sanrego (2018) based on individual education, justice, and public well-being, this index expands corporate evaluation beyond traditional financial metrics like net income or cash flow (Kieso et al., 2020). It aligns with the classic framework of Imam Ghazali, which mandates the protection of faith, life, intellect, lineage, and wealth (Julia et al., 2016). Specifically, green operations directly support the preservation of human life (hifz al-nafs) and intellect (hifz al-aql) by mitigating ecological degradation.

Nevertheless, a severe operational gap limits this relationship in developing markets like Indonesia. Despite macro level mandates such as OJK Regulation (POJK) Number

51/POJK.03/2017, which dictates specific sustainable finance priorities (Financial Services Authority, 2017), real-world execution faces low awareness among corporate clients and restricted market demand for green projects (Noor and Wulandhari, 2023; Fadilah, 2024; Husen and Fitrijanti, 2024). Even when large banking institutions deploy substantial credit to sustainable sectors (Rahayu and Pratama, 2023), the overall integration remains uneven.

If green banking is treated as a superficial marketing tool or a purely bureaucratic reporting exercise, it fails to generate genuine social value. Empirical evidence confirms this risk: Khasanah and Laela (2024) found that green accounting can actually exert a negative effect on maqhasid sharia performance. Therefore, while green banking is hypothesized to influence Islamic bank value positively, a distinct possibility remains that market apathy or high execution costs could render this relationship negative or statistically insignificant.

The Moderating Role of Sharia Compliance: Catalyst or Constraint?

Sharia compliance serves as the definitive baseline for Islamic financial operations, ensuring that all corporate products, services, and policies strictly avoid prohibited elements like riba (usury), gharar (uncertainty), and maysir (gambling) (Nomran and Haron, 2020; Masni, 2019). By safeguarding the integrity of transaction structures, compliance explicitly reinforces the preservation of religion (hifz al-din) and wealth (hifz al-mal). The literature reflects a highly diverse set of variables influencing green bank development, ranging from corporate governance models (Issa et al., 2022) and external stakeholder pressures (Bukhari et al., 2020) to internal drivers like corporate social responsibility and financing growth (Mujiatun and Sari, 2022). In practice, institutions like Bank Muamalat Indonesia have successfully paired environmental goals with sharia-compliant financing structures (Ria et al., 2023).

However, a profound conceptual conflict exists regarding the interaction between compliance and sustainability. Traditional frameworks assume that robust sharia governance automatically strengthens broader corporate social performance (Azmi et al., 2020). Conversely, Jan et al., (2021) argues that most Islamic financial institutions merely practice negative compliance (restricting investments in forbidden industries) while failing to execute positive compliance, which involves active engagement with global environmental, social, and governance (ESG) standards.

This distinction creates a compelling theoretical gap. When an Islamic bank focuses entirely on formalistic legal adherence, the compliance framework may act as an operational constraint, crowding out proactive green strategies. Under these conditions, higher sharia compliance can unexpectedly weaken, rather than strengthen, the positive influence of green banking on the maqhasid sharia index.

Green Banking* Practices on the Islamic Bank Value of Islamic Banks Proxied by *the Maqhasid Sharia Index

Resource-based theory explains that companies possessing rare, valuable, and difficult-to-imitate resources will have a sustainable competitive advantage (Barney, 2018) . *Green banking practices* are considered unique, valuable, and difficult to imitate. Islamic banks that implement *green banking practices* have the ability to identify and manage environmental risks and design sustainable banking products and services. Therefore, Islamic banks will have a positive image in the community due to their concern for the environment. This theory aligns with research conducted by (Asfahaliza & Anggraeni, 2022) and (Rachman & Suadi 2021) found that *green banking* practices impact the profitability of Islamic banks. Therefore, it can be concluded that *green banking practices* are a competitive advantage that can increase the value of Islamic banks, in accordance with *the maqhasid sharia index*. Therefore, the first hypothesis in this study is: **H1: "** *Green banking* practices have a positive effect on the value of Islamic banks, as proxied by *the maqhasid sharia index*."

The Influence of *Sharia Compliance* on the Value of Islamic Banking Companies Proxied by *the Maqhasid Sharia Index*

Resource-based theory explains that companies that possess rare, valuable, and difficult-to-imitate resources will have a sustainable competitive advantage (Barney, 2018) . *Sharia compliance* is considered a unique, valuable, and difficult-to-imitate practice. Islamic banks that implement *sharia compliance* at least commit to comply with sharia principles, improve the quality of Islamic bank governance, and develop innovative products and services for customers while remaining in accordance with sharia principles. This theory is in line with research conducted by (Azmi et al., 2020) and (Astuty, 2024) , which states that *sharia compliance* has a positive effect on the value of Islamic bank companies as proxied by *the maqhasid sharia index*. Therefore, it can be concluded that *sharia compliance* is a competitive advantage that can increase the value of Islamic bank companies in the long term. Therefore, the second hypothesis of this study is: **H2:** " *Sharia compliance* has a positive effect on the value of Islamic bank companies as proxied by *the maqhasid sharia index*."

Sharia *Compliance Moderates the Effect of Green Banking* Practices on the Firm Value of Islamic Banks Proxied by *the Maqhasid Sharia Index*

Resource-based theory explains that companies that possess rare, valuable, and difficult-to-imitate resources will have a sustainable competitive advantage (Barney, 2018) . High *sharia compliance* indicates good corporate governance and is an important foundation for implementing *green banking practices. The combination of green banking* practices and *sharia compliance* provides a competitive advantage for Islamic banks. This theory is in line with research conducted by (Azmi et al., 2020) , that *sharia compliance* moderates the effect of *the Islamic Social Reporting Index* on the value of Islamic bank companies as proxied by *the maqhasid sharia index*. Therefore, it can be concluded that *sharia compliance* and *green banking* are considered unique resources that reinforce each other. The combination of the two will create a stronger competitive advantage for Islamic banks. Therefore, the third hypothesis of this study is, **H3**: " *sharia compliance* moderates the effect of *green banking practices* on the value of Islamic bank companies as proxied by *the maqhasid sharia index*."

Based on the development of the hypothesis that has been described, the research framework can be seen in **Figure 1**.

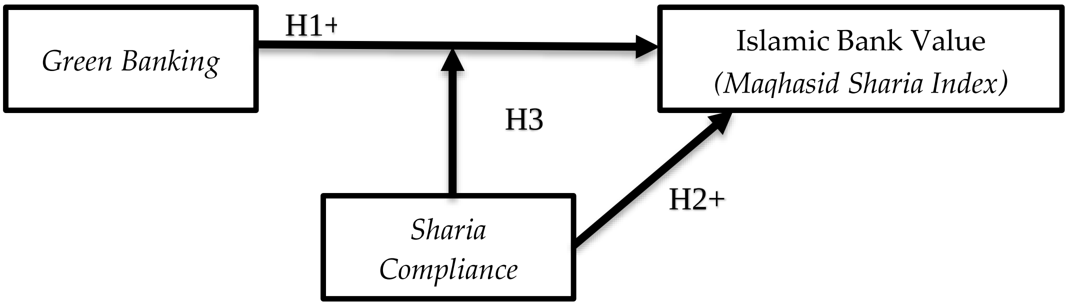

Figure 1. Research Thinking Framework

METHODOLOGY

The research method used in this study is a quantitative method with secondary data. The population in this study is all Islamic banks in Indonesia from 2021 - 2023. The sampling technique used is total sampling (census) because all populations have the same opportunity to be research subjects. The number of samples obtained is 33 observation data obtained from 11 Islamic banks in Indonesia, studied for 3 years from 2021 - 2023. The data used in this study comes from the annual reports and sustainability reports of Islamic banks in Indonesia in 2021 - 2023. The data analysis used in this study includes: descriptive statistical analysis, classical assumption test, coefficient of determination, multiple linear regression analysis, and regression analysis with moderation. The research model for this research is as follows:

$$Y = a + B1x1 + B2x2 + B3(X1.X2) + e \qquad [1]$$

Informations:

Y	= dependent variable
a	= constant
B1 – B3	= regression coefficient
X1 – X2	= independent variable
X1.X2	= moderating variable
e	= errors

Meanwhile, the operational definitions of the research variables are presented in **Table 1**.

Table 1. Operational Definition of Variables

Variable Name	Operational Definition of Variables	Indicator
Islamic Bank Value (*Maqhasid Sharia Index)*	The main factors for measuring *Maqhasid sharia* include: Individual education, creation of justice, achievement of prosperity Rusydiana dan Sanrego (2018)	Maqhasid Sharia Index = IK (T1) + IK (T2) + IK (T3) Rusydiana dan Sanrego (2018)
Green Banking	*Green banking* practices are preserving the environment live by doing operational activities of the bank that concentrates on conservation resources, not wasteful, and the use renewable energy. (Julia et al., 2016)	Green Banking = $\frac{\textit{green banking}\text{ items disclosed}}{\textit{green banking}\text{ items expected to disclosed}}$ (Karyani and Obrien, 2020)
Sharia Compliance	*Sharia compliance* is instruments used to assess accountability in providing information on Islamic banking compliance with sharia principles (Nomran and Haron, 2020)	Sharia Compliance = $\frac{\textit{sharia compliance}\text{ items which is expressed}}{\textit{sharia compliance}\text{ items which is expected to be expressed}}$ (Nomran and Haron, 2020)

Source: (processed data, 2025)

RESULTS AND DISCUSSION

Before conducting regression analysis with moderation, descriptive statistical analysis and classical assumption tests were first carried out. The model in this research passes the classical assumption test. The descriptive analysis statistics in this study can be seen in **Table 2**.

Table 2. Analysis Results Statistics Descriptive

Variables	N	Minimum	Maximum	Wheel-wheel	Standard Deviation
MSI	33	-52.86	40.50	17.51	26.94
GB	33	0.25	0.94	0.71	0.18
SC	33	0.62	0.92	0.86	0.08

Source: Data Processed, 2025

The descriptive statistics present critical insights into the operational realities of Indonesian Islamic commercial banks during the 2021–2023 period (**Table 2**). The Maqhasid Sharia Index (MSI), as the proxy for Islamic Bank Value, exhibits substantial dispersion, ranging from a minimum of -52.86 to a maximum of 40.50, with a mean of 17.51. This high standard deviation 26.94 underscores the structural heterogeneity in how different Sharia institutions successfully convert their operations into holistic social and spiritual benefits.

In stark contrast, the independent variables display compressed variance. Green Banking (GB) scores show a mean of 0.71, indicating a clustered adoption rate across the sample. Most notably, Sharia Compliance (SC) demonstrates extreme uniformity, with a high mean of 0.86 and a minimal standard deviation (0.08). The fact that multiple institutions consistently hit the maximum score of 0.92 indicates a "ceiling effect". This statistical property suggests that formal Sharia compliance is no longer a differentiating strategic resource but rather a rigid baseline regulatory requirement across the industry.

Coefficient test results determination and linear regression test with variable moderation study this can be seen in **Table 3** and **Table 4**.

Table 3. Coefficient Test Determination After Regression Test with Moderation

Model	R	R Square	Adjusted R Square
1	0.632	0.400	0.338

Source: Processed Data, 2025

Based on coefficient test results determination in **Table 3**, value *Adjusted R Square* is 0.338. This means that the value proxy company with *the Maqhasid Sharia Index* influenced by practice *green banking* moderated by *sharia* compliance by 33.8%. Meanwhile the rest 66.2 % is influenced by other variables that have not been researched.

Table 4. Linear Regression Results with Variables Moderation

	Unstandardized Coefficient			
Model	B	Std. Error	T	Sig
Constant	-484.00	237.15	-2.04	0.050
GB	862.56	365.23	2.36	0.025
SC	515.21	281.12	1.83	0.077
GB*SC	-896.57	424.72	-2.11	0.044

Source: Processed Data, 2025

Based on linear regression test results with moderation in **Table 4**, then can made a regression model as following this:

$$Y = a + 862{,}562GB + 515{,}209SC - 896{,}570GB*SC + e \quad [2]$$

Information:

Y = *Maqhasid Sharia Index* SC = *sharia compliance*
a = *constant* GB*SC = variable moderation
GB = *green banking* e = *error*

The Effect of Green Banking on Islamic Bank Value

Based on the regression analysis results, green banking has a positive effect on Islamic bank value proxied by the Maqashid Sharia Index. Therefore, Hypothesis 1 is accepted. This finding is consistent with the Resource-Based View (RBV), which explains that organizations possessing unique, valuable, difficult-to-imitate, and irreplaceable resources are more likely to achieve sustainable competitive advantages. In the context of Islamic banking, the implementation of green banking practices as part of sustainability initiatives provides added value by strengthening the bank's positive image among stakeholders, including customers and investors.

This result is supported by previous studies conducted by Asfahaliza and Anggraeni (2022), which found that the implementation of green banking significantly improves banking profitability. Similarly, research by Rachman and Suadi (2021) demonstrated that the green banking index is positively associated with the profitability of banks listed in the SRI-KEHATI Index. These findings indicate that the more effectively Islamic banks implement green banking practices, the greater their ability to enhance institutional value in achieving Maqashid Sharia objectives, including justice, prosperity, and sustainability.

Nevertheless, the findings should also be interpreted by considering external supporting factors such as government policies on sustainable finance and customer awareness regarding environmentally friendly financial products. Previous studies, including Noor and Wulandhari (2023), suggest that regulatory incentives and green financial literacy play important roles in strengthening the contribution of green banking toward Islamic bank value.

The Effect of Sharia Compliance on Islamic Bank Value

The regression analysis further indicates that Sharia Compliance does not significantly affect Islamic bank value proxied by the Maqashid Sharia Index. Therefore, Hypothesis 2 is rejected. This result is inconsistent with the Resource-Based View, which considers Sharia compliance as a unique and valuable organizational capability that reflects commitment to Islamic principles, governance quality, and innovation in Islamic financial products and services.

This finding contradicts several previous studies, including Azmi et al. (2020) and Astuty (2024), which reported a positive relationship between Sharia compliance and Islamic bank value. However, the result is consistent with the argument proposed by Masni (2019), who emphasized that many Islamic banks focus primarily on administrative compliance rather than substantively implementing Maqashid Sharia values.

One possible explanation is that the implementation of Sharia compliance tends to be normative rather than strategic. Many Islamic banks focus on fulfilling regulatory standards established by supervisory authorities without transforming compliance into a source of competitive advantage capable of increasing institutional attractiveness to investors and customers. This differs from green banking initiatives, which can directly contribute to both reputation enhancement and profitability improvement when implemented effectively.

Furthermore, the descriptive statistical analysis shows that the standard deviation of the Sharia compliance variable is relatively small compared to its average value. This indicates that the level of Sharia compliance among Islamic banks tends to be homogeneous and experiences only limited variation during the observation period. Consequently, differences in compliance levels among banks are insufficient to produce a substantial impact on the Maqashid Sharia Index.

Another possible explanation relates to the limited integration between Sharia compliance and broader business strategies. In several countries with more progressive regulatory environments, Islamic banks are encouraged to integrate Environmental Social and Governance (ESG)-based financial products into their Maqashid Sharia framework. However, in Indonesia, ESG implementation within Islamic banking remains relatively limited. As a result, Islamic banks tend to emphasize formal compliance aspects rather than exploring the strategic value derived from integrating Maqashid Sharia principles into long-term business development.

To address this limitation, Islamic banking institutions need to adopt a more innovative approach in linking Sharia compliance with the achievement of Maqashid Sharia objectives. One possible strategy is the development of more comprehensive compliance indicators that not only measure regulatory conformity but also assess contributions toward economic, social, and environmental sustainability. Through this approach, Sharia compliance may evolve from a formal obligation into a strategic instrument for strengthening Islamic bank value and competitiveness.

The Moderating Role of Sharia Compliance in the Relationship between Green Banking and Islamic Bank Value

Based on the moderated regression analysis, Sharia compliance significantly moderates the relationship between green banking and Islamic bank value proxied by the Maqashid Sharia Index. Therefore, Hypothesis 3 is accepted. The results support the Resource-Based View, which suggests that high levels of Sharia compliance reflect sound governance practices and provide an institutional foundation for implementing sustainability-oriented banking initiatives.

This finding is also consistent with the study conducted by Azmi et al. (2020), which found that Sharia compliance moderates the relationship between the Islamic Social Reporting Index and Islamic bank value. Accordingly, green banking practices and Sharia compliance may both be considered strategic organizational resources that influence institutional competitiveness.

However, the negative coefficient of the interaction term indicates that Sharia compliance weakens the positive effect of green banking on Islamic bank value. This finding suggests that the implementation of Sharia compliance tends to focus more heavily on technical and formal legal aspects of Islamic law, thereby reducing institutional attention toward sustainability initiatives such as green banking. In practice, Islamic banks may prioritize halal and haram considerations over environmental sustainability, even though sustainability is closely aligned with the objectives of Maqashid Sharia.

This result is consistent with the argument proposed by Jan et al., (2021), who explained that Islamic financial institutions often emphasize formal legal compliance rather than substantive ethical implementation. Most Islamic financial institutions tend to apply “negative screening” approaches by avoiding prohibited sectors such as gambling and alcohol-related businesses, while giving less attention to “positive screening” initiatives such as environmental sustainability and social responsibility programs. Furthermore, the participation of Islamic financial institutions in global ESG initiatives remains relatively limited.

These findings imply that the relationship between green banking and Sharia compliance is not always complementary. Excessive emphasis on formal compliance mechanisms may unintentionally reduce organizational flexibility and innovation capacity in implementing sustainability-oriented banking strategies. Therefore, Islamic banks should seek a more balanced approach by integrating Sharia compliance and sustainability principles into a unified strategic framework that supports both ethical compliance and long-term value creation.

Overall, the findings of this study demonstrate that green banking plays a significant role in enhancing Islamic bank value as measured by the Maqashid Sharia Index, while Sharia compliance does not directly contribute to increasing institutional value. In addition, Sharia compliance significantly moderates the relationship between green banking and Islamic bank value, although the interaction effect is weakening rather than strengthening.

These results indicate that sustainability-oriented strategies provide more direct contributions to Islamic bank value creation compared to formal compliance mechanisms. While Sharia compliance remains essential as a regulatory and ethical foundation, its implementation in Indonesian Islamic banking tends to remain administrative and procedural in nature. Consequently, Islamic banks need to move beyond formalistic compliance approaches and adopt more substantive strategies that integrate sustainability, social responsibility, and Maqashid Sharia objectives into their operational and strategic decision-making processes.

CONCLUSION AND RECOMMENDATION

This study investigates the effect of Green Banking and Sharia Compliance on Islamic bank value proxied by the Maqashid Sharia Index, as well as the moderating role of Sharia compliance in the relationship between green banking and Islamic bank value. The empirical findings demonstrate that green banking has a significant positive effect on the Maqashid Sharia Index, indicating that sustainability-oriented banking practices contribute to the achievement of broader Islamic banking objectives, including social welfare, justice, and sustainable development.

In contrast, Sharia compliance does not exhibit a significant direct effect on Islamic bank value. This finding suggests that, within the Indonesian Islamic banking context, Sharia compliance has become institutionalized as a standardized regulatory requirement rather than a strategic capability capable of generating differentiated institutional value. The limited variation in Sharia compliance across Islamic banks further indicates that compliance functions primarily as a legitimacy mechanism instead of a driver of competitive advantage.

More importantly, this study finds that Sharia compliance negatively moderates the relationship between green banking and Islamic bank value. The negative interaction effect indicates that a stronger emphasis on formal compliance mechanisms tends to weaken the contribution of green banking toward the achievement of Maqashid Sharia objectives. This finding provides an important theoretical contribution by demonstrating that formalistic compliance orientation may create organizational rigidity that constrains sustainability innovation within Islamic banking institutions.

The main scientific contribution of this study lies in extending the Resource-Based View perspective within the context of Islamic banking sustainability. Previous studies generally positioned Sharia compliance and green banking as complementary strategic resources that jointly strengthen Islamic bank performance. However, this study reveals that the interaction between the two is not necessarily synergistic. Instead, excessive concentration on procedural and legalistic compliance may reduce organizational flexibility in implementing sustainability-oriented initiatives. Thus, this study contributes to addressing the research gap regarding the inconsistency between formal Sharia governance and substantive sustainability practices in Islamic banking.

In addition, this study strengthens the growing discourse that the achievement of Maqashid Sharia cannot be assessed solely through formal compliance indicators, but must also consider the substantive contribution of Islamic banks toward environmental and social sustainability. Therefore, sustainability-based strategies represent an important dimension in enhancing Islamic bank value beyond merely fulfilling regulatory compliance obligations.

REFERENCES

Asfahaliza, A. N. P., & Anggraeni, P. W. (2022). Pengaruh Penerapan Green Banking terhadap Profitabilitas Perbankan di Indonesia Periode 2016-2021. Contemporary Studies in Economic, Finance, and Banking. 1(2). 298–311. https://doi.org/10.21776/csefb.2022.01.2.10

Aslam, W., & Jawaid, S. T. (2023). Green banking adoption practices: improving environmental, financial, and operational performance. International Journal of Ethics and Systems. 39(4). 820–840. https://doi.org/10.1108/IJOES-06-2022-0125

Astuty, D. W. (2024). Pengaruh Intellectual Capital, Sharia Compliance, dan Risiko Bank Terhadap KInerja Maqashid Sharia pada Bank Umum Syariah di Indonesia. Universitas Islam Negeri Syarif Hidayatullah.

Azmi, F., Pramono, N. H., & Wahyuni, M. (2020). Maqhasid Sharia: Measurement of the Purpose of Islamic Banks in Indonesia with Sharia Compliance as a Moderating Variable. Accounting Analysis Journal. 9(1). 1–7. https://doi.org/10.15294/aaj.v9i1.38647

Barney, J. B. (2018). Resource-based theory: Strategic management. Journal of Management. 44(4). 1421–1437. https://doi.org/10.1177/0149206318778701

Bukhari, S. A. A., Hashim, F., Amran, A. Bin, & Hyder, K. (2020). Green Banking and Islam: two sides of the same coin. Journal of Islamic Marketing. 11(4). 977–1000. https://doi.org/10.1108/JIMA-09-2018-0154

Dewi, S.A.R. et al. (2024). Peran Green Banking sebagai Pemoderasi pada Determinan Kinerja Keuangan Bank Umum Syariah Periode 2018-2022. Al-Kharaj: Jurnal Ekonomi, Keuangan, dan Bisnis Syariah. 6(6). 3717–3733. Available at: https://doi.org/10.47467/alkharaj.v6i6.1175

Ernawati, S. and Utami, C.B. (2024). The Effect of Green Banking Disclosure on The Financial Performance of Regional-Owned Islamic Banks. Jurnal Ilmiah Ekonomi Islam. 10(03). 3186–3196. https://doi.org/10.29040/jiei.v10i3.15089

Fadilah, G. (2024). Reformulasi Konsep Green Banking pada Sektor Perbankan Berlandaskan Prinsip Green Economy. Jurnal Multidisiplin Ilmu Akademik. 1(6). 307–319. https://doi.org/10.61722/jmia.v1i6.2951

Husen, I.M. and Fitrijanti, T. (2024). Analisis Kebijakan Pemerintah Indonesia dalam Mendorong Penyaluran Green Credit pada Sektor Perbankan Syariah. JPPI (Jurnal Penelitian Pendidikan Indonesia). 10(3). 867–874. https://doi.org/10.29210/020243920

Jan, A., Lai, F. W., & Tahir, M. (2021). Developing an Islamic Corporate Sustainability Assessment Framework for Islamic banks. Journal of Cleaner Production. 315. 128099. https://doi.org/10.1016/j.jclepro.2021.128099

Julia, T., Rachman, P. M., & Kassim, S. (2016). Shariah Compliance of Green Banking Policy in Bangladesh. Humanomics. Humanomics. 32(4). 390-404. https://doi.org/10.1108/H-02-2016-0015

Karyani, E., & Obrien, V. V. (2020). Green Banking and Performance: The Role of Foreign and Public Ownership. Jurnal Dinamika Akuntansi Dan Bisnis. 7(2). 221–234.

https://doi.org/10.24815/jdab.v7i2.17150
Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2020). Accounting Intermediate. John Wiley & Sons.
Khasanah, A.A. and Laela, S.F. (2024). The Effect of Green Accounting Practice on Maqashid Sharia Performance in Islamic Banks. Jurnal Akuntansi dan Auditing. 21(2). 39–63. https://doi.org/10.14710/jaa.21.2.39-63
Masni, H. (2019). Analisis Penerapa Shariah Compliance Dalam Produk Bank Syariah. Jurnal Hukum Ekonomi Syariah. 3(2). 118–137. https://doi.org/10.26618/j-hes.v3i2.2451
Mujiatun, S., & Sari, M. (2022). Islamic Green Banking at Bank Pembangunan Daerah In Indonesia. Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE). 5(1). 74-93. https://doi.org/10.31538/iijse.v5i1.1850
Nomran, N. M., & Haron, R. (2020). Sharia governance and Islamic banks' performance: A cross-country study. Journal of Financial Reporting and Accounting. 18(2). 263–285. https://doi.org/10.1108/JFRA-03-2019-0036
Noor, A. F., & Wulandhari, R. (2023). Bank Mandiri Akui Penyaluran Kredit Hijau Masih Hadapi Tantangan. www.Republika.co.id.
Otoritas Jasa Keuangan. (2017). POJK Nomor 51/POJK.03/2017 tentang Penerapan Keuangan Berkelanjutan bagi Lembaga Jasa Keuagan, Emiten, dan Perusahaan Publik.
Park, H., & Kim, J. D. (2020). Transition towards green banking: Role of financial sustainability and profitability. Sustainability. 12(1). 237–252. https://doi.org/10.3390/su12010237
Rachman, A. A., & Suadi, M. H. (2021). Green Baking and Profitability (Banks Registered on The Sri-Kehati Index in Indonesia Stock Exchange 2015-2019). Turkish Journal of Computer Mathematics Education. 12(8). 473–486.
Rahayu, I. R. S., & Pratama, A. M. (2023, February 1). BCA, BNI, dan Bank Mandiri Kucurkan Rp 412 Triliun untuk Kredit Berkelanjutan pada 2022. www.Kompas.Com.
Ratnasari, T., Surwanti, A., & Pribadi, F. (2021). Implementation of green banking and financial performance on commercial banks in indonesia. In International Symposia in Economic Theory and Econometrics (Vol. 28, pp. 323–336). Emerald Group Holdings Ltd. https://doi.org/10.1108/S1571-038620210000028018
Rehman, A., Razzaq, A., & Ahmad, M. (2021). Green banking initiatives and environmental performance: The moderating role of green transformational leadership. Environmental Science and Pollution Research. 28(32). 43812–43825. https://doi.org/10.1007/s11356-021-13753-4
Ria, D., Iqbal Fasa, M., Fachri, A., & Islam Negeri Raden Intan Lampung, U. (2023). Penerapan Green Banking di Lingkungan Bank Muamalat Indonesia. JIHBIZ: Global Journal of Islamic Banking and Finance. 5(1). 1-22. https://doi.org/10.22373/jihbiz.v5i1.17195
Rusydiana, A. S., & Sanrego, Y. D. (2018). Measuring the performance of Islamic banking in Indonesia: An application of Maqasid Index. Journal of King Abdulaziz University: Islamic Economics. 31(2). 103–118. https://doi.org/10.4197/Islec.31-2.7
Sehen Issa, J., Abbaszadeh, M. R., & Salehi, M. (2022). The Impact of Islamic Banking Corporate Governance on Green Banking. Administrative Sciences. 12(4). 1-20. https://doi.org/10.3390/admsci12040190
Shaumya, S., & Arulrajah, A. (2017). The Impact of Green Banking Practices on Banks Environmental Performance: Evidence from Sri Lanka. Journal of Finance and Bank Management. 5(1). 77-90. https://doi.org/10.15640/jfbm.v5n1a7