



THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE ON PROFIT SUSTAINABILITY WITHIN THE MAQASID SYARIAH FRAMEWORK FOR COMPANIES LISTED ON THE INDONESIA SHARIA STOCK INDEX

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Abstract

The increasing implementation of Environmental, Social, and Governance (ESG) practices has raised questions about whether sustainability-oriented corporate practices contribute to long-term financial performance, particularly among Sharia-compliant companies. This study examines the effect of the Environmental, Social, and Governance pillars on profit sustainability among companies listed on the Indonesia Sharia Stock Index (ISSI) from the perspective of Maqasid Syariah. Maqasid Syariah is positioned as a philosophical foundation for interpreting ESG practices, especially *maslahah* and the protection of wealth (*Hifdz al-Maal*), rather than as a statistical variable. A quantitative explanatory approach was employed using secondary data from annual reports, sustainability reports, and ESG information. The sample consists of 30 Sharia-compliant issuers observed during 2021–2024, producing 120 firm-year observations. Panel data regression was conducted after Chow, Hausman, and Lagrange Multiplier specification tests. The results show that the Environmental pillar has a positive but insignificant effect on profit sustainability ($\beta = 0.1246$; $p = 0.5781$), the social pillar has a positive but insignificant effect ($\beta = 0.1061$; $p = 0.7065$), and the Governance pillar has a negative but insignificant effect ($\beta = -0.1623$; $p = 0.4958$). The findings indicate that ESG implementation has not yet translated into measurable short-term improvements in sustainable profitability among the sampled Sharia-compliant issuers. The study contributes empirical evidence to ESG and Islamic finance literature by positioning Maqasid Syariah as a theoretical lens for interpreting the financial implications of ESG performance.

Keywords *ESG, Profit Sustainability, Maqasid Syariah, Sharia Capital Market, ISSI*

INTRODUCTION

The global Islamic capital market is increasingly expected to combine financial performance with ethical responsibility, social welfare, and environmental sustainability. In Indonesia, this expectation is particularly relevant for companies included in the Indonesia Sharia Stock Index (ISSI), where Sharia compliance provides a formal basis for investment eligibility while broader sustainability practices increasingly influence corporate legitimacy and investor assessment. ESG practices provide a contemporary mechanism through which companies disclose environmental responsibility, social commitments, and governance quality.

From the perspective of Maqasid Syariah, economic activities should generate *maslahah* and avoid *mafsadah*. The protection of wealth (*Hifdz al-Maal*) is therefore relevant to the sustainability of corporate earnings because stable and responsibly generated profits can support economic resilience and continued stakeholder benefits. ESG practices can also be interpreted as contemporary expressions of responsibility

toward life, future generations, social welfare, ethical conduct, and wealth preservation (Agustin et al., 2023; Suhaimi et al., 2023).

Signaling Theory provides a complementary explanation. ESG disclosure can function as a signal of corporate quality, responsibility, and risk management in conditions of information asymmetry. When investors cannot directly observe the quality of management, transparent ESG information may reduce uncertainty and support perceptions of long-term corporate resilience (Bafera & Kleinert, 2023). Legitimacy Theory similarly suggests that companies disclose sustainability information to maintain alignment with societal expectations and preserve their social license to operate (Alrazi et al., 2015).

However, the empirical relationship between ESG performance and financial outcomes remains inconclusive. Some studies report that ESG performance improves profitability, operational efficiency, risk management, or firm value, while others indicate that ESG implementation can generate substantial costs before financial benefits become visible. Evidence from Sharia-oriented firms also suggests that ESG can provide stronger risk-mitigation effects, but this does not necessarily imply an immediate increase in profitability (Kabir Hassan et al., 2021).

The present study addresses this empirical gap by examining the individual effects of the Environmental (E), Social (S), and Governance (G) pillars on profit sustainability among Sharia-compliant issuers listed on the ISSI. Unlike an earlier version of the study that emphasized the construction of a synergy model, this research focuses exclusively on hypothesis testing of the direct effects of the three ESG pillars. Maqasid Syariah is retained as the philosophical and theoretical perspective for interpreting the results rather than being treated as an additional statistical construct.

Accordingly, the research questions are: (1) Does the Environmental pillar have a positive effect on profit sustainability? (2) Does the Social pillar have a positive effect on profit sustainability? and (3) Does the Governance pillar have a positive effect on profit sustainability? The study aims to provide empirical evidence that is relevant for Sharia-compliant issuers, investors, and regulators concerned with the financial implications of ESG implementation.

Theoretical Background and Hypotheses

Maqasid Syariah

Maqasid Syariah emphasizes the realization of human welfare through the protection of essential interests. In the corporate context, *Hifdz al-Maal* is particularly relevant because sustainable and ethically generated wealth supports economic resilience. The broader Maqasid literature also connects social welfare and solidarity with responsible economic activity (Angasinha, 2025), while the Maqasid approach has been developed in Islamic finance through objectives related to education, justice, and public welfare (Aini & Handayani, n.d.). ESG practices can therefore be interpreted within this perspective as mechanisms for reducing harm, strengthening accountability, and promoting responsible value creation (Agustin et al., 2023; Suhaimi et al., 2023).

Signaling Theory

Signaling Theory explains how organizations communicate observable information to reduce information asymmetry. ESG disclosure may signal managerial commitment to responsible business practices, risk management, transparency, and long-term orientation. The effectiveness of such signals depends on their credibility and their relationship to underlying corporate quality (Bafera & Kleinert, 2023; Nam et al., 2026). Stronger ESG performance is therefore expected to be associated with more sustainable financial outcomes.

Hypothesis Development

The Environmental pillar covers resource efficiency, waste management, emissions reduction, and environmental risk management. These practices may reduce operational inefficiencies and environmental risks, supporting long-term profitability. Therefore:

- H1: The Environmental pillar has a positive effect on Profit Sustainability.

The Social pillar reflects employee relations, human rights, community engagement, diversity, and corporate social responsibility. Positive stakeholder relationships may strengthen reputation, employee commitment, and stakeholder loyalty, potentially supporting sustainable earnings.

- H2: The Social pillar has a positive effect on Profit Sustainability.

The Governance pillar represents transparency, regulatory compliance, integrity, accountability, and the quality of corporate oversight. Effective governance can reduce agency problems and unethical behavior and therefore may contribute to stable long-term profitability.

- H3: The Governance pillar has a positive effect on Profit Sustainability.

METHODS

Research Design and Data

This study employs a quantitative explanatory design to examine the influence of ESG performance on profit sustainability. The unit of analysis is the company, specifically Sharia-compliant issuers listed on the ISSI. The study uses archival secondary data from annual reports, sustainability reports, and ESG information obtained from company disclosures and the Indonesia Stock Exchange (IDX, 2025). The observation period is 2021–2024. The quantitative explanatory orientation follows the general principles of quantitative research design (Creswell, 2018; Amrudin et al., 2022).

Population and Sample

Purposive sampling was applied to issuers that had sufficiently complete annual reports, sustainability reports, ESG information, and financial data during the observation period. The final sample consists of 30 issuers and 120 firm-year observations.

Variable Measurement

Environmental, Social, and Governance performance is measured using ESG pillar information available for the sampled issuers, consistent with the use of ESG dimensions

in prior Indonesian studies (Hasanah et al., 2024). Profit Sustainability is proxied by profitability and earnings-sustainability information, with ROE used as the principal profitability measure in the research design (Sudjana, n.d.; Hasibuan & Rahesti, 2021). Maqasid Syariah is not statistically tested; it functions as the philosophical lens used to interpret the expected relationship.

Table 1. Operationalization of the Research Variables

Variable	Operational focus		Main indicators	Role
Environmental (E)	Environmental responsibility and resource management		Waste management; resource efficiency; emissions reduction; environmental risk management	Independent variable
Social (S)	Stakeholder and social responsibility		Employee relations; human rights; community engagement; diversity; CSR	Independent variable
Governance (G)	Transparency, integrity, and compliance		Decision-making transparency; regulatory compliance; corporate governance integrity; disclosure	Independent variable
Profit Sustainability (SP)	Capacity to generate and sustain profitability		Return on Equity (ROE) and earnings sustainability indicators	Dependent variable

Data Analysis

Panel data regression was used to test the hypotheses. Chow, Hausman, and Lagrange Multiplier (LM) tests were conducted to determine the appropriate panel estimation procedure. Classical diagnostics included normality, multicollinearity, and autocorrelation tests. Hypotheses were evaluated using coefficient estimates, t-statistics, and probability values at the 5% significance level. The coefficient of determination (R^2) was used to assess the explanatory power of the independent variables.

RESULTS

Panel Model Specification

The Chow test produced a cross-section F probability of 0.9980 and a cross-section Chi-square probability of 0.9903. Because both values exceed 0.05, the fixed effects specification was not supported and the Common Effect Model (CEM) was preferred over FEM. The Hausman test yielded a probability of 0.8151, indicating that the Random Effect Model (REM) was preferable to FEM. The Breusch–Pagan LM test produced a probability of 0.0086, confirming the presence of random effects and selecting REM over CEM.

Table 2. Panel Model Specification Tests

Test	Statistic / Probability	Decision	Selected specification
Chow	$F = 0.3768$; $p = 0.9980$	$p > 0.05$	CEM over FEM
Hausman	$\chi^2 = 0.9428$; $p = 0.8151$	$p > 0.05$	REM over FEM
LM (Breusch–Pagan)	$BP = 6.9029$; $p = 0.0086$	$p < 0.05$	REM over CEM

Diagnostic Tests

The residual normality test produced a Jarque–Bera probability of 0.7931, indicating that the residuals did not significantly depart from normality. The correlation matrix showed correlations of 0.5724 between E and S, 0.3903 between E and G, and 0.6088 between S and G; all were below the 0.80 threshold used in the study, indicating no serious multicollinearity. The Durbin–Watson statistic was 1.5826. The source analysis regarded the model as acceptable for the subsequent inference, while noting that the statistic falls near the inconclusive range.

Table 3. Diagnostic Test Summary

Diagnostic	Result	Interpretation
Jarque–Bera normality	$JB = 0.4637$; $p = 0.7931$	Residual normality supported
E–S correlation	$r = 0.5724$	Below 0.80 threshold
E–G correlation	$r = 0.3903$	Below 0.80 threshold
S–G correlation	$r = 0.6088$	Below 0.80 threshold
Durbin–Watson	$DW = 1.5826$	No extreme serial-correlation indication; statistic near inconclusive range

Hypothesis Testing

The final estimation uses the Random Effect Model through the Panel EGLS approach. None of the three ESG pillars has a statistically significant effect on Profit Sustainability at the 5% level.

Table 4. Random Effect Model Estimation and Hypothesis Testing

Variable	Coefficient	t-statistic	p-value	Decision
Environmental €	0.1246	0.5578	0.5781	H1 not supported
Social (S)	0.1061	0.3775	0.7065	H2 not supported
Governance (G)	−0.1623	−0.6832	0.4958	H3 not supported
Constant	11.9539	0.9750	0.3316	—

The coefficient of determination is $R^2 = 0.009027$, meaning that the Environmental, Social, and Governance pillars jointly explain approximately 0.90% of the variation in Profit Sustainability. The remaining 99.10% is attributable to factors outside the estimated specification, including possible macroeconomic, firm-specific, and industry-related conditions.

DISCUSSION

Environmental and Profit Sustainability

The Environmental pillar has a positive coefficient but does not significantly affect Profit Sustainability. The positive direction is consistent with the expectation that environmental efficiency and risk management can support long-term corporate resilience. However, the absence of statistical significance suggests that these benefits were not yet sufficiently reflected in the short-term profitability of the sampled ISSI issuers. Environmental initiatives may require initial expenditures for technology, resource efficiency, compliance, and reporting before measurable financial benefits emerge. This result differs from studies emphasizing positive ESG effects on sustainability-related reporting and profitability (Fajar, 2024; Cecilia & Putri, 2025), indicating that the financial consequences of environmental practices can depend on sector, measurement, time horizon, and the maturity of ESG implementation.

Social and Profit Sustainability

The Social pillar also has a positive but insignificant coefficient. The direction of the relationship is compatible with the argument that employee relations, human rights, community engagement, and CSR can strengthen stakeholder trust and organizational reputation. Nevertheless, the lack of significance indicates that these benefits did not translate into a statistically detectable improvement in sustainable profitability during 2021–2024. Compared with research on energy-sector firms that reported significant positive effects of ESG on profitability (Farhan & Muslimin, 2024; Ali & Alam, 2021), the difference may reflect variations in industry structure, sample composition, ESG measurement, and the dependent variable.

Governance and Profit Sustainability

The Governance pillar has a negative and statistically insignificant coefficient. The negative direction may indicate that governance improvements can involve compliance, monitoring, reporting, audit, and organizational costs that are borne before the expected benefits become visible. Similar concerns about the costs and financial implications of ESG implementation have been discussed in Indonesian sustainability research (Ciseta Yoda et al., 2026; Putra & Asfiah, 2024). From a Maqasid Syariah perspective, however, good governance remains important because transparency, integrity, accountability, and avoidance of unethical conduct support responsible wealth management.

Implications from the Maqasid Syariah Perspective

Taken together, the findings show a gap between the normative importance of ESG and its immediate measurable financial effect. Maqasid Syariah provides a broader interpretive perspective in which corporate performance is not evaluated solely through short-term profitability but also through *maslahah*, avoidance of harm, ethical conduct, and protection of wealth (Noor et al., n.d.; Suhaimi et al., 2023). The insignificant results therefore suggest that ESG should not be judged only by its immediate effect on profit.

For issuers and regulators, ESG implementation can remain strategically important even when its short-term statistical association with profitability is weak.

CONCLUSION

This study examined the effects of the Environmental, Social, and Governance pillars on Profit Sustainability among 30 Sharia-compliant issuers listed on the ISSI over 2021–2024. The results show that the Environmental pillar has a positive but insignificant effect, the social pillar has a positive but insignificant effect, and the Governance pillar has a negative but insignificant effect. Accordingly, H1, H2, and H3 are not statistically supported. The R^2 of 0.90% indicates that ESG pillars explain only a small proportion of the variation in Profit Sustainability in the sample.

The study concludes that ESG implementation had not yet produced a statistically significant short-term effect on sustainable profitability among the sampled Sharia-compliant issuers. Maqasid Syariah remains relevant as a philosophical lens because it emphasizes *maslahah*, responsible wealth management, and avoidance of harm. Future research should consider longer observation periods, sector-specific analysis, alternative measures of earnings persistence, and additional firm-level and macroeconomic control variables.

ACKNOWLEDGMENT

The author gratefully acknowledges the academic guidance provided in the Research Methodology course at the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia. No external financial support was reported for this study.

Conflict of Interest The author declares that there is no conflict of interest.

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