

Reporting under Islamic Practices, a Path forward to Environmental, Social, and Corporate Governance (ESG) Considerations

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Iranian Journal of Finance, 2024, Vol. 8, No.4, pp. 82-112.

Publisher: Iran Finance Association

doi: <https://doi.org/10.30699/ijf.2024.432776.1455>

Article Type: Original Article

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Received: January 13, 2024

Received in revised form: May 05, 2024

Accepted: June 03, 2024

Published online: July 21, 2024



Abstract

Islamic principles are heralding a variety of implications for business and accounting. Reflecting upon Islamic practices, this study engages with the notion of ESG conduct and its disclosure in accounting reports. While drawing from key Islamic texts and relevant prior literature, the present research elaborates and discusses fundamental Islamic principles of relevance and delineates what they suggest for ESG reporting. A grounded theory method was used for data collection. Online in-depth semi-structured interviews were deployed to 16 Islamic "finance and accounting specialists." Primary data analysis was done with MAXQDA. In the next step, the three-step encoding method was accomplished. The survey revealed 53 reporting implementation codes in three dimensions comprising environmental, social, and corporate governance. In addition, a comparative view of corporate governance under Islamic and non-Islamic economic schools was illustrated. The execution of ESG accounting practices might be beneficial in overcoming the problem of traditional accounting, which fails to incorporate environmental, social, and ethical hidden costs. The conclusion discusses the perspective of the Islamic view in ESG reporting by incorporating the concept of *Tawhid*, which provides holistic guidance based on Islamic beliefs, values, and concepts. The obtained framework contributes to Islamic accounting at the intersection of sustainable strategies.

Keywords: Islam, Islamic Finance, Accounting, Ethics, ESG

Introduction

Although there is a gap between religion and the financial system, under Islam, there is no separation between religious life and business life (Hassan & Rabbani, 2023). The principles of the Islamic financial system are derived from Islamic canon law (Shari'ah), which regulates every aspect of Muslims' lives, including generating profit. Islam represents a way of life with a comprehensive view of existence, human life, and relationships between them. Humans are a part of the universe, and each element complements other parts. According to Shari'ah, every citizen is responsible for promoting justice and welfare in society and seeks Almighty God's blessings to achieve success in this world and the Hereafter. Shari'ah, or Islamic Law, regulates all aspects of a Muslim's life. The Islamic system is based on two essential concepts: human wellbeing (Falah) and good life (Hayat Tayyibah), both of which stress universal brotherhood and socio-economic justice, as well as a balance

between the material and spiritual requirements of all human beings that is necessary to preserve and enrich faith, posterity and wealth (Sulaiman et al., 2021).

Individuals (and businesses, as groups of individuals) are expected to feel socially responsible for others in the community. In general, the Islamic economic system aims to allow people to earn their living in a fair and profitable way based on Shari'ah without exploiting others so that the whole society may benefit. Islam also emphasizes the welfare of the community over individual rights (Testa et al., 2022). Over time, Muslim scholars have surveyed the Holy Quran and Sunnah and concluded that Almighty God intended a set of main purposes for Shari'ah. The purposes of Shari'ah also include eliminating hardship and protecting the Earth's population. Last but not most important is promoting justice, the main pillar of Islamic Law and the only way to eternal peace (Al-Hinai et al., 2024). In doing so, these concepts are embedded in Environmental, Social, and Corporate Governance (ESG) considerations.

Therefore, ESG is essential to demonstrate accountability and Islamic ethical decision-making of managers, auditors, and the Shari'ah Board members (SSB¹). Achieving an ethical and socially responsible attitude toward a firm's stakeholders is the primary goal of ESG. In general, ESG denotes corporate activities beyond profit making, which include protecting the environment, caring for employees, being ethical in trading, and getting involved in the local community. Some main issues are promoting human rights, community involvement, human resource management, socially responsible investing, and social reporting (Qoyum et al., 2022).

However, the above ideas must be correctly translated into a performance measurement system for Islamic financial institutions. Many Islamic economic thinkers use the Maqasid Shari'ah to guide and measure the performance of Shari'ah financial institutions. However, they are still very focused on financial aspects and do not pay attention to the stakeholders as a whole. Hence, this research is conducted to formulate performance measurements that can bring the Islamic financial institutions to achieve the goals of Shari'ah, which become its ideals, be it financial and non-financial, material and non-material, soul and body, physical and spiritual, mind and mentally, world and the Hereafter, the relationship between a human with other humans, and the relationship between a human and the nature for all stakeholders as

¹ Shari'ah Supervisory Board

manifestations of blessing for the whole world and its content, a mercy to all creation and a steward on Earth, vicegerent of Almighty God on Earth. These prevailing issues and the Islamic fundamentals have led this study to explore and understand useful Islamic practices for ESG reporting.

Literature Review

Islamic Law for Trading

Shari'ah refers to the sum of legal rules that Almighty God has legislated and sent to the people through Prophet Muhammad (PBUH¹). It consists of three primary sources: the Holy Qur'an, Sunnah, and Ahadith (Rehman et al., 2020; Umar et al., 2023). Islamic Law provides a set of fundamental principles, duties, and prohibitions related to social responsibility toward people and the environment and to financial and commercial transactions.

"[...] Allah has permitted trade [...]" (Qur'an, Sura Al-Baqara-2: 275)

Accordingly, Islam fully recognizes the legitimacy of economic and commercial activities and argues that there is nothing wrong with fair trade, provided it is in line with the Islamic Code of Conduct. The economic system of Islam, considering all dimensions and individual and social characteristics and emphasizing the concepts of social responsibility, can provide a suitable program to achieve sustainable and responsible development. It thus conveys the ideas of a socially responsible goal, a sustainable economic development agenda, a concern for human welfare, social justice, peace, a healthy environment, and the promotion of a fairer financial world. Guided by Islamic ethical values, Islamic finance, by definition, is also expected to endogenise ESG issues in its provision of Islamic financial services. ESG concerns under the Islamic finance paradigm are derived from Islamic principles rooted in the Shari'ah.

Environmental, Social, and Corporate Governance

According to Alawadi (2023), ESG could be defined as the voluntary integration of environmental, social, and human rights considerations into business operations, over and above legal requirements and contractual obligations; ESG is the commitment of an organization to act in a manner that serves the interests of its stakeholders and is concerned with the ways that companies generate profits and their impact on the broader community; it is

¹ Peace Be upon Him

about “how” companies manage their business processes to produce an overall positive impact on society. ESG refers to the three broad sets of non-financial qualitative factors central to measuring an investment's sustainability and ethical impact on a company or business. It represents an additional set of parameters, besides the conventional criteria of financial performance and risk management, in determining the selection and management of investment portfolios (Hidayat & Rafiki, 2021; Ermawati et al., 2021). Within these three areas of concern are several issues of international and domestic relevance that have come to be added over time under the ESG agenda. Some examples of these ESG issues are provided in Table 1.

Table 1. ESG Issues

Environmental Concerns	Social Concerns	Governance Concerns
Climate change	Diversity	Management structure
Hazardous waste disposal and waste management	Human rights	Employee relations
Sustainable agriculture	Consumer protection	Executive benefits and compensation
Protection of biodiversity	Sin stocks including weapons, tobacco, alcohol, drugs, gambling	Employee welfare standards, including health and safety
Green technology	Animal welfare	Equal opportunities
Conservation of natural resources and resource efficiency	Social and financial exclusion	Labor rights
Fossil fuel divestment	Fairtrade business and products	Information disclosure
Pollution control	Arms trade financing	Bribery and corruption
Recycling	Anti-genetically modified foods	Shareholder rights
Renewable energy, Nuclear energy, Clean energy	Relations with local communities	Whistleblowing schemes
Protection of indigenous communities and endangered species	Child labor	Stakeholder dialogue

This responsibility is very much felt in the Islamic religion. Islamic finance is about finance based on the ethical tenets of Shari’ah. As such, Shari’ah compliance is considered a prerequisite requirement for the fulfilment of economic and financial transactions. The Shari’ah stipulates the adoption of permissible (Halal) and the rejection of prohibited (Haram) means. This stipulation upholds the responsibility of promoting productive activities and shunning harmful transactions. Examples include the manufacture, supply, or service of Haram (impermissible) goods and services, environmental issues, and those that promote moderation, balance, and harmony in life.

Islamic Principles Regarding ESG Reporting

Islam acts beyond religion, and it prescribes the way of life. The Holy Qur'an and Sunnah govern the lives of Muslims and provide clear guidance on individuals' and companies' daily operations. Islam puts great emphasis on the need for Muslims to be accountable to Allah (TME¹) and the Ummah (society at large) by recognizing the rights of others. In relation to ESG, the Holy Qur'an describes that every human being is a trustee/custodian of Allah's (TME) resources. This is in line with the primary principle concerning the vicegerency role of humankind on Earth (Khalifah) (see Koleva, 2021). Islam also emphasizes the principle of divine accountability, which represents one's duty to uphold the values of fairness and justice in his/her daily practices. Guided by the concept of Tawhid (the unity of Allah (TME)), all human beings are therefore subject to total submission to Allah's (TME) will according to the religious requirement in all aspects of life (see Jan et al., 2023). Accordingly, every Muslim and Islamic business organisation is expected to embrace good ethical values and perform social responsibility and justice to society, including caring for the natural environment. Emphasis on ethics in all matters in Islam has long been evident:

"I have been sent only to perfect good morals." (Hadith et al., 1.56).

This is what the holy Prophet Muhammad (PBUH) has said. Islam places the highest emphasis on moral values in human life. In a way, Islam is basically a moral code of conduct for human life. Moral codes and ethical norms are discernible from the verses of the Holy Qur'an, and the teachings of the Prophet (PBUH) are numerous, far-reaching, and comprehensive. Islamic teachings strongly stress observing moral principles and ethical codes in human behaviour. They are repeatedly stressed throughout the Holy Qur'an, which says:

"You are the best nation that has been raised for mankind; you enjoin right conduct, forbid evil, and believe in Allah." (Qur'an, Sura Al-i-Imran-3: 110)

The above verse implies (1) faith, (2) doing right, being an example to others to do right and having the power to see that the right prevails, (3) eschewing wrong, being an example to others to eschew wrong, and having the power to see that wrong and injustice are defeated. Islam, therefore, lives not for itself but for humanity and lays out a clear guideline for Muslims to be righteous through their actions in life.

¹ The Most Exalted

Religion (Islam in this discussion) is a series of ideas and practical instructions according to the claims of the assertive followers; the doctrines and commandments (the Prophet of Islam and Muslims) are from the Creator of the world. Suppose we know ethics as a set of teachings that draws the way of life as necessary and proper, which represents the should and should not of the worth governing the behavior of the person; we would find the close relationship between religion and morality and consider the ethics as an inseparable part of religion. In that case, Ethics and edification of the soul in Islam are critical issues, so the moral education and edification of human and community development and guidance are objectives of the Holy Qur'an and knows the moral qualities of the criterion of the value of man, As the divine prophets praise them for having high ethical traits praised and say:

"Surely Abraham was the patient, very kind and returns (to Almighty God)." (Qur'an, Sura Hud-11: 75)

The Holy Qur'an about Prophet Muhammad (PBUH) said:

"Surely, you are highlighting of a great and universe moral." (Qur'an et al.-68: 4)

Considering the Islamic traditions and life of the Infallible PBUH, we find that all aspects of honorable life have been embodied and expression of moral and valuable human qualities. In complete meaning, they perfect the Almighty God's morals in their existence, and they guide virtue and good human morals.

A stakeholder approach can explain the relationship between ethics, financial performance, and company risk. Stakeholders have an essential role in building the ethical identity of the company. In applying stakeholder theory, Fallah Shayan et al. (2022) distinguish two almost entirely different methodological approaches: (1) theory-based normative stakeholder approach, which emphasizes ethical and moral standards as the only acceptable means of corporate behavior, regardless of the impact of this behavior on corporate performance and (2) instrumental stakeholder approach, which focuses primarily on stakeholder orientation as a means to achieve company success. Kujala et al. (2022) revealed that companies that fulfill stakeholder interests by promoting ethical behavior and being sensitive to the environment tend to gain the trust and loyalty of stakeholders. The formal definition of stakeholder theory is a model of corporate social responsibility which states that business managers have ethical responsibilities to various stakeholders that go beyond the narrow view that managers' primary or sole responsibility is to shareholders (Hartman et al., 2020). Companies that treat stakeholders well would increase the firm value and reduce the risks.

The company realizes its commitment to ethics in its operations by communicating its ethical identity in its annual report (Alshater et al., 2021). Oriade et al. (2021) state that ethical identity is the reality and uniqueness of an organization related to the organization's external and internal image and reputation as a result of corporate communications. From the explanation above, ethical identity is the values and behaviors representing the company's moral beliefs and attitudes related to its image and reputation and how it communicates them. According to Ghulamallah et al. (2021), the ethical identity of Islam is the value and philosophy of the company based on Islam. Its activities are free from usury and based on Islam, aimed at developing social and community.

Hence, in terms of accountability, Muslims believe that they will be accounted for whatever they do in this world in the Hereafter. Individuals (and businesses, as groups of individuals) are expected to feel socially responsible for others in the community. In order to cover Islamic ethical goals according to Almighty God's decree in economic activities, accounting reports should be expanded in ESG reporting, which is divided into the following categories.

Environment

“And He has made subservient to you, (as a gift) from Himself, all that is in the heavens and on earth: in this, behold, there are messages indeed for people who think!” (Qur'an, Sura Al-Jathiya-45: 13)

The acts of nurturing and conserving the natural environment are rooted in Islamic law and principles, as contained within the Holy Qur'an and the Sunnah of the Prophet Muhammad (PBUH). Islam highlights that nature is indeed a gift from Almighty God for all humanity and other living organisms on Earth. Ultimately, human beings are accountable to Almighty God; additionally, they are expected to act according to other human beings and care for the natural environment. Islam encourages preserving the natural environment as a crucial life resource (Mohidem & Hashim, 2023). Moreover, the sustainable development of the environment is imperative for future generations. The Holy Qur'an emphasizes that everything on Earth is created for humankind. Apart from the Earth being considered a gift to all, human beings are responsible for preserving it. Such an expectation works in tandem with the human being playing his/her role as the guardian of Allah's (SWT1) resources on it. We should act fairly and with justice to other human beings,

¹ Subhanahu Wa Ta'ala

other species, and the natural environment. Hence, it is generally a test to measure man's act of worship in its broadest sense.

From a business perspective, the environment is concerned with organizations' impacts on living and non-living natural systems, including ecosystems, land, air, and water. As the custodians of the Earth (Khalifah), human beings' relationship with the natural environment is to ensure that the Earth loaned to us will sustain and survive indefinitely. Man has been entrusted with the duty to be responsible and accountable to Allah (TME) as the Giver and the representative of the human race and the natural environment. Hence, humans are expected to continue their daily lives while protecting and nurturing the natural environment.

“Allah sends down water from the sky and brings the dead Earth back to life. There is certainly a sign in that for people who hear it. There is instruction for you in cattle. From the contents of their bellies, from between dung and blood, we give you pure milk, which is easy for drinkers to swallow. You derive both intoxicants and wholesome provisions from the date palm and grapevine fruit. There is certainly a Sign in that for people who use their intellect. Your Lord revealed to the bees: 'Build dwellings in the mountains and the trees, and also in the structures which men erect. Then eat from every kind of fruit and travel the paths of your Lord, which have been made easy for you to follow. Inside them comes a drink of varying colors, containing healing for humanity. There is certainly a Sign in that for people who reflect.’” (Qur'an, Sura An-Nahl-16: 65–69)

Islam also prohibits any acts of destroying the Earth because such acts of destruction would result in an injustice to other claimants, which is contrary to the concept of the greater good.

“[...] and when he goes away, he strives throughout the land to cause destruction therein and destroy crops and animals. And Allah does not like mischievous acts.” (Qur'an, Sura Al-Baqara-2: 205)

Islamic organizations must uphold the value of accountability to mitigate and protect the natural environment from harmful effects and preserve the natural environment to ensure the sustainability of resources. Furthermore, the society (Ummah) has the right to be informed about the effects of business organization operations on others, including the community and the natural environment. One opportunity to demonstrate responsibility and commitment to meeting the needs of the Muslim community, in general, is through the public disclosure of relevant and reliable information. Nevertheless, as cautioned by Lee and Isa (2023), Islamic-based environmental reporting

practices should not be used by companies as a legitimization act to gain support from society. Environmental reporting is a conscious business initiative towards fulfilling social accountability and transparency about disclosure actions (El-Halaby et al., 2021; Pratomo & Nugrahanti, 2022).

Society

"It is not righteousness that you turn your faces towards East or West, but it is righteousness - to believe in Allah and the Last Day and the Angels, and the Book, and the Messengers; to spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask; and for the freeing of captives; to be steadfast in prayer, and practice regular charity; to fulfil the contracts which you made; and to be firm and patient in pain (or suffering) and adversity and throughout all periods of panic. Such are the people of truth, the God-conscious." (Qur'an, Sura Al Baqarah-2: 177)

Islam has laid down some universal fundamental rights for humanity, which are to be observed and respected under all circumstances. To achieve these rights, Islam provides legal safeguards and a very effective moral system. Thus, whatever leads to the welfare of the individual or society is morally good in Islam, and whatever is injurious is morally bad. Islam attaches so much importance to the love of Almighty God and the love of man that it warns against too much formalism. A clear description of the righteous and Almighty God-conscious man is given in this verse. He should obey salutary regulations, but he should fix his gaze on the love of Allah (TME) and the love of his fellow men. A comprehensible characteristic of social responsibility is reflected in the above verse. The divine commandment abhors those who deny their social responsibility as the Holy Qur'an testifies:

"Seest thou one who denies the Judgment (to come)? Then, such is the one who repulses the orphan and encourages them not to feed the indigent. So woe to the worshippers — who are neglectful of their prayers, those who (want but) to be seen, but refuse (to supply) neighborly needs." (Qur'an, Sura Al-Ma'un-107: 1-7)

These verses clearly detest those men who deny their social responsibility by treating the helpless with contempt and leading arrogant, selfish lives. The virtue of charity or love for fellow living beings has been extolled throughout the Holy Qur'an, as in these verses that imply that feeding the indigent at the expense of self is a noble form of virtue, which is beyond the reach of men who are so callous as even to discourage or forbid or look down upon the virtue of charity or kindness in others. It also clearly mentions that true worship

does not consist in the mere form of prayer, without the heart and mind being earnestly applied to seek the realization of the presence of Allah (TME) and to understand and do according to His will, which is to be helpful to others and fulfill neighborly needs - an essential aspect of social responsibility.

One of the Hadith of the holy Prophet Muhammad (PBUH) further complements these divine commandments. According to Abu Hurayrah, one of the companions of the holy Prophet Muhammad (PBUH):

“Allah’s Apostle (PBUH) said, “Do you know who is poor?” They (the companions of the holy Prophet) said, “A poor man amongst us has neither Dirham with him nor wealth.” He (the holy Prophet) said, “The poor of my Ummah would be he who would come on the Day of Resurrection with prayers and fasts and Zakat, but he would find himself bankrupt on that day as he would have exhausted his funds of virtue since he hurled abuses upon others, brought calumny against others and unlawfully consumed the wealth of others and shed the blood of others and beat others, and his virtues would be credited to the account of one who suffered at his hands. Moreover, if his good deeds fall short of clearing the account, then his sins would be entered in his account, and he would be thrown in the Hellfire.” (Hadith - Sahih Muslim, No.6251)

This clearly demonstrates Islam's emphasis on maintaining social responsibility and justice in society. Several commandments in the Holy Qur’an and the tradition of the holy Prophet Muhammad (PBUH) reported in Hadith stipulate what must be done to establish socio-economic justice and, therefore, be socially responsible, as discussed earlier. Some examples of these are obligatory payment out of income and wealth (Zakat), philanthropic trusts (Wagqf), alms and charity (Sadaqah), interest-free loans (Qard al-Hassan), etc. Islam commands its followers to adhere to the same unified code of behavior, whether in the mosque, earning a living, or acting out other aspects of life. Every action of mankind is for Allah (TME); it is only Allah (TME) to be feared, and thus, morality follows automatically. The Holy Qur’an points this:

“Say: Lo! My worship and my sacrifice and my living and my dying are all for Allah, Lord of the Worlds.” (Qur'an et al.-6: 162)

Because of this philosophy, one becomes selfless and conscious about social responsibility and justice. Although the principles mentioned in the going section guide a Muslim in day-to-day behavior, they are more descriptive of the moral philosophy of Islam. The Qur’anic verses and Hadith of the holy Prophet (PBUH) illustrate the significance of social responsibility and justice connected with righteousness in Islam.

As an example, in Islamic economics, Zakat is an imposition and base of Islamic economics; the amount of Zakat is usually two-half percent of the accumulated assets above the level of the quorum or initial point, while this amount can vary for different classes, The general rule is that the lower work and capital involved in producing is higher the Zakat amount. Moreover, this fact is based on the idea that aliment comes from Almighty God. Zakat is one essential pillar of Islam: the second task of the most important duties of a Muslim. In the literature, Zakat is the meaning of purification. People with a certain level of accumulated wealth are liable to pay Zakat to purify them from the guilt of greed. Zakat is described as grinding stones of financial structure in an Islamic state. It aims to eradicate power by redistributing wealth from the rich to the poor and needy. Zakat is not charity, but the thing is that from the perspective of the right, it belongs to people with low incomes and people in need. So, Zakat constantly maintains the circulation of wealth in society.

The current discussion suggests that Islamic values and traditions resonate with social responsibility. Specifically, the Islamic tradition places great importance on brotherhood, fellowship, hospitality, sharing one's wealth, tolerance, protection of the weak and minorities, and respect for learning and ethics. Sustainable development sits comfortably within this culture, which believes in stewardship and putting back into society more than has been taken out.

Corporate Governance

Almighty God requires us to:

“Obey those who are in authority from among yourselves [whether duly elected or duly appointed authority]” (Qur’an, Sura an-Nisa’-4: 59)

The holy Prophet Muhammad (PBUH) also declared that:

"The man most beloved and closest to God is the just leader, and the man most hateful and contemptible in the sight of God is the unjust leader."

Then, it is understood that to be successful, we shall appoint people in the governance of our organizations who must comply with the corporation's aims and objectives. According to al-Syathibi, the final goal of Islamic law is one that is Maslahah, or the good and welfare of humanity (Tarique et al., 2021).

Corporate governance is a set of relationships between a company's boards, its shareholders, and other stakeholders, as well as provides the structure and mechanism through which the objectives of the company are set and the means for attaining those objectives and monitoring performance are determined.

Theories from a number of disciplines, including finance, economics, accounting, law, and management and organizational behavior, have affected the development of corporate governance. The Islamic jurists claim that Maqasid Shari'ah provides a comprehensive system to cover religious rituals and many aspects of social and economic life, politics, business, and contract law.

The Shari'ah code of conduct encourages every Muslim to be just, fair, and honest to everyone involved in business transactions. The Islamic system of governance encourages and promotes the ethical norms of transparency and honesty in every business transaction. The Islamic principles of corporate governance determine the three dimensions of decision-making: a) By Whom, with mutual consultation of Shura or Consultative Council, b) For Whom the ultimate aim of any corporate activity is to gain the grace of Almighty Allah and the decision makers on the Earth regarded as trustees of the given powers to take decisions in the best interests of His people and c) With Whom and To Who; the corporate governance decisions require effective religious supervision to ensure the conformity of all operations and procedures to the Shari'ah.

Hence, corporate governance members must focus on corporate transparency, effective monitoring, efficient management, a sound system of internal control, and risk management through the competent board of directors, who should be free from conflicts of interest and possess skills and experience to run corporate affairs in a competitive environment. To meet Shari'ah's rules with the IFIs¹, they are controlled by the classical Board of Directors (BoD) and SSB to ensure their compliance with Shari'ah. Islam's precise view of corporate governance issues is astonishing. For example, conflict of interest, considered one of the most critical threats to the health of corporate governance, will be further investigated.

Conflict of Interest

“Leave that which makes you doubt for what does not make you doubt.” (Hadith narrated by Al-Tirmidhi (2442), Ahmed (1630), and Ibn Hibbaan (722))

One Hadith from Prophet Muhammad (PBUH) has said it. This Hadith considers conflicts of interest as any situation that creates doubts in others. Therefore, an individual who avoids conflicts of interest will expedite the

¹ Islamic Financial Institutions

positive side toward better integrity. Islamic Shari'ah has defined conflicts of interest as offenses (Haram). The Prophet Muhammad (PBUH) also has said in this context:

“Who keeps himself away from doubts, will highly exalt his religion and his integrity; and whoever commits doubtful things, commits offenses (haram).” (Hadith narrated by Al-Bukhari; Muslim; Al-Tirmidhi; and Al-Nesaa'i)

The current Hadith emphasizes the positive side of eliminating conflicts of interest and exalting the individual's religion and integrity. Accordingly, conflicts of interest are not desirable in Islam, whether in personal life or in the business arena. The Arabic terms Ta'aroz and Tazahom are somehow equivalent to "conflict." In Usul al-Fiqh, Ta'aroz refers to an encounter between two or more Dalils (evidences) that cannot coexist. Tazahom is “giving each other trouble and crowding one another out.” In Usul al-Fiqh, Tazahom is used when two Hukms conflict to the point that they cannot co-occur.

Al-Qari (2008) defines conflicts of interest as "the shortage in fulfillment of two desires in a contractual agreement because they go against each other." This definition addresses the conflicts of interest in all kinds of relationships. Also, Rizk al-Qazzaz (2008) defines conflicts of interest as [. . .] the impairment of the decision maker's objectivity and independence due to physical or emotional desire for himself or his relative(s) or his friend(s) or the changes in the person's performance due to direct or indirect personal concerns or awareness of some information. Based on the second definition, Faddad (2008) and Al-Qattan (2009) conclude that conflicts of interest are not treason because conflicts resemble competition between different desires that raise suspicion in others' minds, while treason is a crime that leads to a legal penalty.

Call for ESG Codes under Islamic Thoughts, a Missed Link in Accounting Reports

Hisab or "account" is the root of accounting, accountability, and accountability. According to Abdelzaher et al. (2019), the references in the Holy Qur'an are to account in its generic sense, relating to one's obligation to “account” to Almighty God on all matters about human effort for which every Muslim is "accountable." The linguistic stem of the term (Taklif – Arabic) includes the meaning of having to do challenging and burdened things, generally named obligation. Muslims must do what Allah (TME) asks and avoid what He

forbids. Accountability and liability refer to duty and obligation, whereas blame involves sanctions (Santoso et al., 2023). In addition, Kamaruddin and Auzair (2020) stated that the term accountable can be used to imply being "obligated to give an account" or being "subject" to doing so. From the Islamic perspective, the term accountability encompasses commands, forbidden things, and matters left to choose from. There are consequences behind those things called reward and punishment. Accountability can be concluded as a concept in ethics that includes several moral behaviors. It covers concepts such as the responsibility to perform the obligation, answerability of what has been done regarding the obligation, enforcement, and liability to do the commands, and blameworthiness in case of disobedience.

Western viewpoint emphasizes that accountability is limited to law only. Consequently, no ethical principles such as decency, truthfulness, and honesty underlying a man's acts and consciousness exist—the individual attempts to pursue his benefits and interests by deceiving and breaking the established rules. Conversely, the Islamic perspective highlights different concepts of accountability. The principle of vicegerency of humanity on Earth increases the essence of accountability. A man is accountable to Allah (TME) above the accountability to his society. However, accountability to Allah (TME) cannot be separated from accountability to His fellow men (Habluminallah and Habluminannaas). Habluminannaas (relationship among human beings) should reveal Habluminallah (relationship between humans and Almighty God). This view constitutes how to interact, behave, and deal with society ethically. Thus, every individual performs and obeys the rules because of accountability in the life after life and the belief that Allah (TME) may punish them in the world and Hereafter.

Recognizing that the universe did not create itself leads Muslims to believe that Almighty God is the Creator who watches them, and not even the smallest thing is missed from His oversight. It stimulates and encourages due care in their acts since they will be accountable for their actions and undertakings. Based on that reason, Islam familiarized the concept of individual accountability – God-inspired accountability – which remarks that:

“Every person is responsible for his deeds.” (Qur’an, Sura Ash-Shuraa-42: 15)

Considering that ethics, accounting, and considerations of collective interests are ordered everywhere in the Holy Qur’an, we should look for a way to include the ESG reporting guidelines, which are one of the concrete manifestations of the dimensions of providing benefits to all stakeholders, into

the accounting reports of Islamic companies. To meet this purpose, we must look for the answer to the following question, which is the main question of the research:

In order to report ESG under Islamic practices, what components should be developed in each of its three dimensions?

Research Methodology

Data Collection Process

Qualitative research seeks to construct social reality naturally and understand its meaning. Therefore, the success of qualitative research is highly dependent on the process, events, and validity of the data collected. It is commonly the fact that there is often a thought that interferes with the results of qualitative research, but this can be minimized by thinking that is objective based on reality or can be empirical. The common researchers do in qualitative research is that the researchers are involved in interacting with the reality they are studying. Therefore, the resulting Theory gains a firm footing on reality and is contextual and historical (Etim et al., 2022; Mehta & Moonat, 2017).

Qualitative research can also be a grounded research method. A qualitative research method uses several systematic procedures to develop a theory. Grounded Theory is compiled inductively, from a phenomenon (Lubis, 2014; Rosenau, 1992). The purpose of the grounded theory approach is data theorizing, which is a method of formulating a theory-oriented towards action or interaction. This is due to the suitability for research on individual, group, or collective behavior. This research does not start from a theory or testing a theory but from data to a theory (Lubis, 2014; Rosenau, 1992). Grounded Theory is an act of active research and interaction oriented to theory formation. Therefore, this Theory seeks to discover, compile, and prove the temporary through systematic data collection and analysis of data relating to the phenomenon (Strauss & Corbin, 2003, p. 10). Grounded Theory aims to manage, handle, bring out, and respond to phenomena in specific contexts. Therefore, grounded theory research can be independent of literature because it will cover creativity in collecting, understanding, and analyzing the data (Azmi et al., 2019).

This research positions the researcher to be part of the research process and acts as an instrument in data collection and analysis. It needs planning orderly (systematic) procedures. Grounded research builds concepts or theories by analyzing data in words, activities, expressions, symbols, and written data. To

apply grounded Theory, researchers need to have theoretical sensitivity to the intricacies of data through an in-depth literature review combined with the researcher's experience (Lubis, 2014; Rosenau, 1992). There are several differences between the grounded approach and other approaches, namely that the conceptual framework is generated from data rather than previous studies. The purpose of finding a theory from data in grounded Theory is that if researchers face difficulties in terms of concepts when formulating problems, building a framework of thinking, and compiling interview materials, then the concepts used by previous theories can be borrowed temporarily until the actual concepts are found from the scene. However, the resulting Theory is not influenced by previous theories, even if there are similarities; it is more due to the similarity of the empirical data collected.

Grounded research is best used when researchers wish to build and develop a substantive and formal Theory. It is in a set of property codes and theoretical discussion, and whether it is applied to the investigation of still unclear problems or to obtain new perceptions of situations, it is considered normal (Lubis, 2014; Rosenau, 1992). In this research, the researcher goes directly to the field without bringing a specific conceptual design, proposition, or Theory. Provocatively, researchers often enter the field with an "empty head" without bringing anything a priori, whether concepts, propositions, or theories. This is because, by bringing concepts, propositions, and theories that are a priori, the researchers worry about being into verification studies that force the empirical level to conform to the theoretical conceptual level. Thus, the findings in concepts, propositions, and theories are based on inductively developed data.

The researchers used grounded Theory since they think it can reflect the ESG reporting practices inspired by Islamic religious principles in accounting reports through data exploration of Islamic "finance and accounting" expert actors. Research steps are evident in Fig 1. In grounded Theory, the number of informants is not a measure; instead, emphasis is placed on representing various rich concepts. Also, informants are the main source of data through in-depth semi-structured interviews. Researchers select informants by considering their knowledge and competence in the problems studied. Accordingly, 16 Subject Matter Experts (SMEs) participated in this study. All experts were asked for their anonymous Judgment regarding the research question. Tab 2 follows their essential features of them.

This study used snowball sampling to determine informants when in-depth interviews are carried out from one informant to another until the information submitted is no longer of high quality or the information conveyed is similar to

before or scientific saturation. There are no standard criteria regarding the number of informants the researchers wanted to interview. The number of informants is determined after some time but depends on the adequacy of the data obtained. Generally, researchers only conduct interviews once the data becomes saturated (Lubis, 2014; Rosenau, 1992). Determination of research subjects and informants using snowball sampling considerations so that it is possible to involve parties outside the research location who are deemed to understand the research problem.

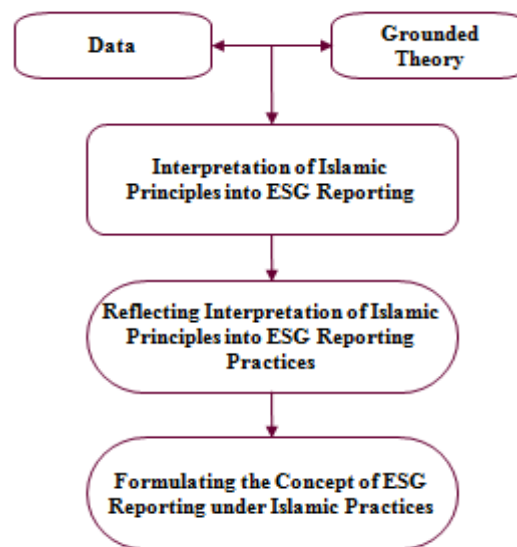


Figure 1. Research Steps through the Grounded Theory Method

Table 2. SME group profiles

Variable		Frequency	Percentage
Age	Below 30	2	12.5
	30-60	10	62.5
	Above 60	4	25
Education	Master	1	6.2
	PhD and upper	15	93.8
Job Position	Academic plus Practitioner role	13	81.2
	Just Academic role	0	0
	Just Practitioner role	3	18.8
Length of Service	Less than 5 yrs	1	6.2
	5-10 yrs	3	18.8
	10-20 yrs	9	56.2
	More than 20 yrs	3	18.8

Data Analysis Method

The collected data is compiled chronologically or sequentially to facilitate data analysis and process evaluation. In contrast, data analysis is an effort to systematically search and organize notes from observations, interviews, and others to improve researchers' understanding of the studied case and present it as a finding to others. To improve this understanding, the analysis is continued by trying to find meaning (Alimuddin & Ruslan, 2021). Data analysis can co-occur with collecting data with the water model, namely data reduction, data presentation, and verification. Research-based on field data has a continuous data analysis model as long as data in the field is still in the collection process. The essence of data collection and analysis activities in grounded Theory is a closely related process that must be carried out alternately, and this is called a cycle.

In grounded research, data interpretation is an essential analysis analysis that gives meaning to the categorized data. In the interpretive paradigm, more emphasis is on the meaning or interpretation of a person to a symbol (Triuwono, 2015). Data or information is collected in various forms (written, sound, values, and symbols), delivered by informants, and analyzed by interpreting, expressing, and explaining something that is the essence of research. In qualitative research, researchers should be able to control themselves, analyze and criticize the situation they are studying, and then make abstractions of something that is happening into reality and data. Therefore, researchers' knowledge and theoretical sensitivity have an essential role.

Most qualitative researchers prioritize careful explanation in analyzing the data when presenting their findings (Strauss & Corbin, 2003: 9). Not a few researchers can compose descriptions, informants' words, excerpts from field notes, and interpretations into one form of the descriptive story that is rich in meaning and convincing (Lubis, 2014; Rosenau, 1992). In the theorizing process, it is only possible to report some data because it is necessary to do selective data reduction. Data reduction is done by simplifying, abstracting, and transforming "rough" data from written notes, symbols, and values obtained in the field notes.

MAXQDA 2020, a software program used for analyzing qualitative data, and the three-step encoding method of Corbin and Strauss (2008) were used for data analysis. Content related to the research question was first identified through the initial open codes extracted from experts' answers and statements. Open coding is an analytical process through which concepts are identified and their features and dimensions discovered in the data. Then, to create links

between open codes, similar codes with the same connotation were classified as axial codes. Axial coding links categories to subcategories and connects categories at the level of attributes and dimensions. In the last step, the data were selectively coded, and axial codes with the same connotation were placed in one category or dimension. Selective coding is also a process of integrating and improving categories (Lee, 2001).

Results

The results of this study use the concept of divinity according to Islamic values. These values start from values related to Almighty God, relationships with fellow creatures, to values in behaviour. The study of ideology in science is one of the main differences between the view of modern (Western) ideology and the view of divine ideology. In Islam, knowledge must be based on values that have a function and purpose. According to the in-depth interviews with SMEs, the findings of the study's data analysis are summarized in Fig 2, where codes were juxtaposed, resulting in a number of categories.

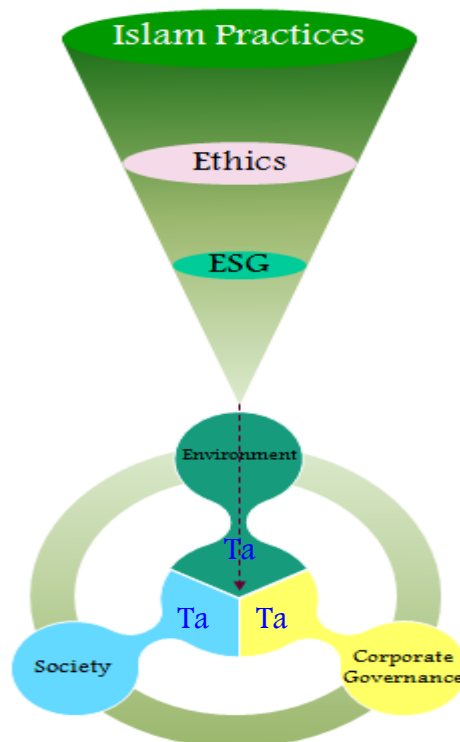


Figure 2. Conceptual Model of the ESG Reporting under Islamic Practices

The school of Islamic economics depends on the concepts and insights that, based on them, make Islamic economics the principal difference from other schools. This insight into Islam can be found in the existence of society, the history of ownership, etc. Although these concepts are essential issues and are not considered in scientific terms, the influence of the spirit and the morality of people and their emergence in human behavior have a tremendous role in preventing the rise of social and economic problems and helping to quick and easy solve them; Many social and economic problems in other communities are due to incorrect insights of them about gain, wealth and poverty and conflict in the individual and community wellbeing and interest and their attitudes about man, society, existence and history, ownership, justice, etc.

By correcting visions and impressions and the rise of the right view about these fundamental issues and infrastructure in thoughts and behaviors, one can prevent such problems and crises. So what happened and so we can conclude that the moral vision of Islam towards wealth and profit is the following:

- I. Wealth and profit as the absolute goal is unacceptable.
- II. Wealth is neither the essence of privilege nor superiority.
- III. Attractive to the wealth and earnings orientation and born moral attitude from it is a source of corruption and social injustice that turns people into ruin and destruction.
- IV. Wealth can be a tool for spiritual evolution.
- V. Wealth can be a tool for justice and social welfare.
- VI. Wealth for the individual's welfare- if not involved in a corruption case - is legitimate and commendable.

According to the experts' explanations and interpretations, in addition to examining divine sources such as verses of the Holy Qur'an, Ahadith, etc. ESG reporting under the school of Islamic practices as a solution to reflect the ethical aims implicit in the religion of Islam in economic activities and their disclosure in accounting reports in each of its three dimensions should include the following clauses:

Environment

A review of accounting research indicates that theory development related to environmental disclosure, in general, needs to be more cohesive and rudimentary. In contrast, almost no theory development has occurred about the

environmental disclosure of Islamic foundations. Therefore, according to the divine recommendations in Islamic sources and relying on the opinions of experts participating in the research, it is necessary to apply the items found in Table 3.

Table 3. Environmental Accounting Disclosures

Top Environmental Accounting Disclosures
Allocation of the amount of environmental-related costs to production processes
Identification of environmental-related cost
Product improvement analysis (i.e., identification of opportunities for reduction of environmental impact)
Allocation of the amount of environmental-related costs to the product
Develop and use of environmental related key performance indicators (KPIs)
Introduction or improvement to environmental-related cost management
Classification of environmental-related costs
Product impact analysis (i.e., assessment of the environmental effect of competing product designs)
Creation and use of environmental-related cost accounting
Product inventory analysis (i.e., the specification of the types and quantities of material and energy required and the amount of residue released to the environment)
Providing information about any specific 'green'-based product (e.g., providing the rate of green product introduction)
Determining the definition and scope of 'green product' according to the context of corporate operation
Disclosure of data related to water consumption, water recycling, and sewage treatment in the company
Disclosure of data related to greenhouse gas and carbon emissions in the company
Report on the level of environmental partnerships (i.e. the level of communication with non-governmental, governmental, private, etc. organizations that work in the direction of improving environmental issues)
Allocation of the amount of endowments in line with the protection of the environment
Report on the financing of green Islamic securities (<i>Sukuk</i>) for financing environmental projects
Providing data related to the creation of green Islamic funds in order to protect the environment (such as helping to solve the water crisis, air pollution, etc.)
Demonstrating financing in any project that may lead to environmental damage
The description of credits dedicated to initiatives/ efforts by the company to lessen any negative impacts resulting from the products sold/services rendered

Society

Society was examined as the next important element of ESG. According to the ruling examples in the societies, the current reporting framework has remained relevant. In the alternative Western paradigm of the socially responsive corporation, shareholders are the only part encouraged to influence policy. Board members and managers are encouraged to take their opinions into

account. Thus, it was necessary to consider disclosure reports that are comprehensive and in the spirit of Islamic society. The items in Table 4 describe experts' opinions and examples of Islamic religious schools.

Table 4. Society-Oriented Accounting Disclosures

Top Social Accounting Disclosures
Exposing the costs allocated to obligatory payments such as <i>Khums</i> and <i>Zakat</i> of assets and properties subject to <i>Khums</i> and <i>Zakat</i> to help the poor sections of society
Amount of donation to social activities
Representing the amount of religious services provided to employees (such as <i>Hajj</i> , <i>Iftar</i> in Ramadan, etc.)
Report on the amount of funds allocated to participate in religious occasions and events (such as Islamic holidays, <i>Ashura</i> , <i>Arbaeen</i> , etc.)
Amount of participation of the company in charity programs
Report on the level of providing welfare services to employees
Disclosure of employee salary details
Representing the quota allocation level for hiring employees who are disabled, underprivileged, ex-convicts, minority groups, etc.
Costs allocated to customer privacy
Civil development of the local community
Amount of allocated credit to the company's social responsibility activities
Credit dedicated to natural disaster relief
Exposing the costs allocated to <i>Mustahabb</i> payments such as endowment/ <i>Waqf</i> <i>Qard al-Hasan</i> , etc.
Budget dedicated to sustainability risk management
Allocation of credits to the board of directors for monitoring the risks and opportunities related to the weather (climate)
Description of appropriations dedicated to supporting small businesses, entrepreneurs, and home businesses
Economic development of deprived areas

Corporate Governance

In a global context, ESG performances that include corporate governance can also predict stock returns. In addition, governance is the most crucial component of ESG from the investors' perspective. According to Velte's (2023) findings, ESG practices positively impact the return on assets (ROA), but governance has a stronger impact on ROA than environmental and social dimensions. In the eloquent religion of Islam, specific recommendations have been made on how governments are implemented throughout history, and economic activities are no exception to this rule. In order to cover this importance, according to the inner content of Islamic religious sources and experts' opinions, it is considered necessary to apply the items mentioned in Table 5 in the context of reporting.

Table 5. Corporate Governance Reporting Disclosures

Top Corporate Governance Reporting Disclosures
Verification of SSB existence
Number of SSB members
Disclosure of potential SSBs' cross-memberships
Education qualification of SSB members
Disclosure of potential reputable scholars' existence on SSB
Number of potential reputable scholars on SSB
The ratio of the total amount of investment account funds to paid-up capital in shareholders' equity
Disclosure of relation among SSBs and AAOIFI management
Ensuring report on not possessing executive position by SSB members inside the corporate
Ensuring report on no membership in Islamic funds by SSB members
Amount of remuneration received by SSB members
Declare on no relation between SSBs and BoDs
Ensuring report on SSBs independence from shareholders
Ensuring the implementation of equal voting rights
Report of significant shareholders (percentage of shares held by internal organizations and five percent of owners)
Credit provided to the implementation of anti-corruption and anti-bribery strategies

Since the considerations of corporate governance are not limited to post-event reporting and many ethical risks, including conflict of interest, are rooted in the structure of corporate governance, according to the narrative of experts and AAOIFI¹ rules, the arrangement mentioned in Figure 3 should be included in the Islamic corporate governance structures.

¹ Accounting and Auditing Organization for Islamic Financial Institutions

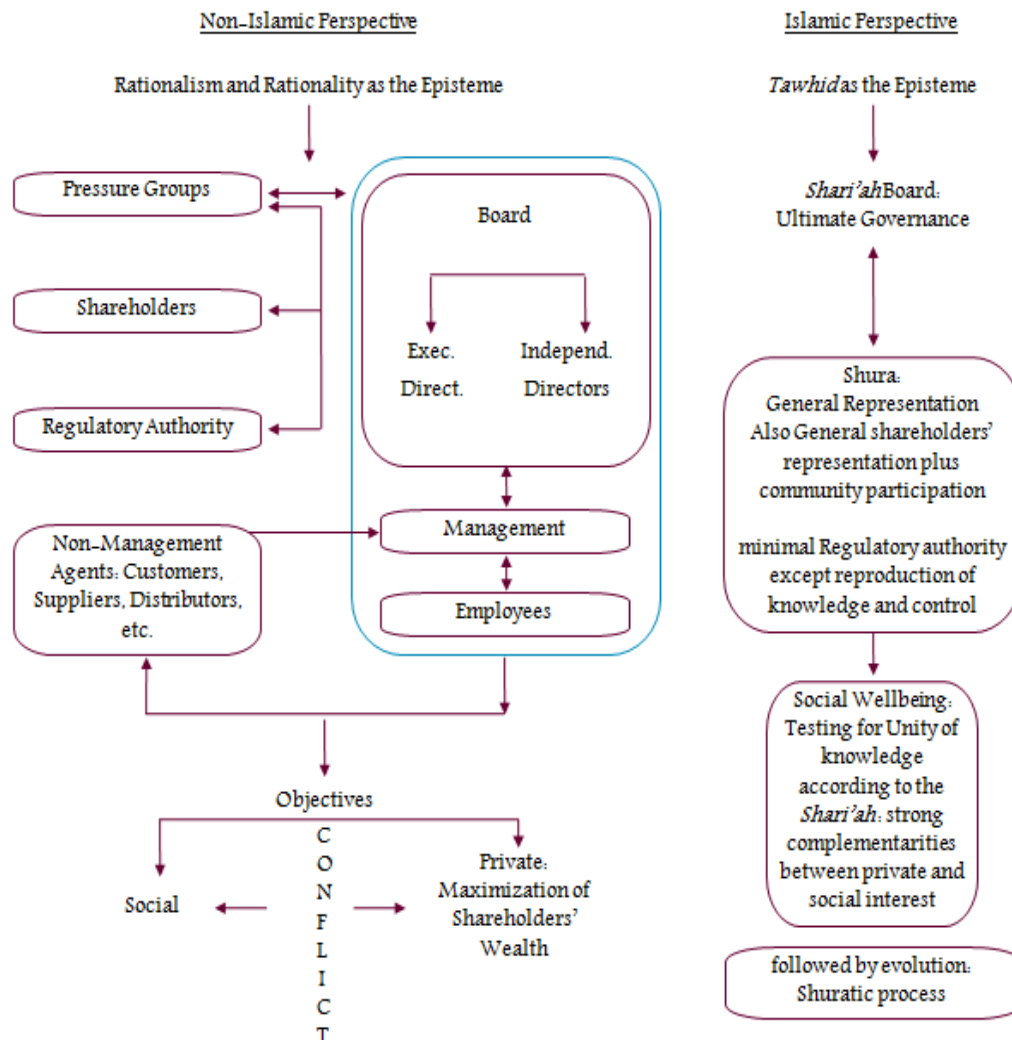


Figure 3. Conceptual Model of the ESG Reporting under Islamic Practices

Discussion and Conclusion

Islam as a religion has been placed as a choice, and at the same time, its teaching has become a guideline in the life of humanity who embraces it. So, its existence has provided direction in the development of human civilization. Islam is an open religion that constantly gives people the freedom to think ahead and achieve a level of civilization and better progress. Modern

accounting cannot reflect the non-economic reality created by the company. It can only recognize and reflect on economic events that are private costs/benefits and cannot recognize public costs/benefits. With the orientation of maximizing profit for the benefit of shareholders or for the benefit of management, such as to get bonuses, management exploits other people (e.g. stakeholders and society) and the natural environment.

Shari'ah is to simulate the social wellbeing function for everyday wellbeing rather than only to maximize shareholders' wealth. This is not a mere altruistic goal. The logic of mutual interest drives it. In this way, the social goal becomes strongly complemented by the private goal, reflecting thereby the working of the principle of complementarities between the diverse variables and their relations. In this way, much of the institutional transaction costs caused by lack of transparency, moral hazard, and excludability are reduced in the presence of active and responsible participation at large.

In the Holy Qur'an, there are many values that human beings can use to develop science. Based on these values, science has ethical values of divinity, namely Tawhid, monotheism, trustworthiness, Maslahah, sincerity, fairness, Ihsan, etc., which shall be taken into account in all aspects of life, including economic activities. ESG, as one of the most important subsets of ethics in business, was studied in this paper. According to the Islamic literature and experts' opinions, the crucial clauses of ESG reporting were recognized under the recommendations of Islam so that organizations in Islamic societies pay due attention to all their duties, including environmental, social, and corporate governance dimensions, by acting on them. Thus, more detailed and accurate concepts can be searched during the research.

ESG investing has a comparable focus on long-term risk reduction and a broad set of impact metrics also designed to limit harm. However, the ESG approach is more wide-ranging, including environmental scores to measure and limit carbon emissions, pollution, biodiversity, and waste, and social scores such as gender and diversity, human rights, and labor standards. The governance element in ESG covers oversight and accountability, compensation, and political lobbying.

There is also a scope mismatch between ESG and IF (Islamic Finance) investment. IF principles are more narrowly defined than ESG principles: prohibited products such as alcohol and non-halal foods and prohibited practices such as high leverage, interest, and shorting are all relatively easy to identify and quantify, whereas ESG issues in scope are more loosely defined and subject to continual evolution.

A recent study was prepared to provide the shortcomings of ESG in terms of Islamic teachings. Using ESG screening tools and platforms compliant with Islamic practices, Shari'ah-sensitive investors have a more comprehensive way of ensuring their funds are invested in assets that meet Islamic principles beyond the classic taboos.

This research put efforts into improving reporting components to match them as much as possible with the Islamic way of business through environmental, social, and corporate governance dimensions, which provides implications and consequences in sustainable economic studies under Islamic thoughts. Nonetheless, it should be noted that the cases mentioned in the present study were based on the review of Islamic sources, the researchers' perception of them, and the knowledge and experiences of the specialists participating in the study. Therefore, future research in this field can emphasize the generalizability of the results by using the opinions of other relevant specialists. There may also be items hidden from the experts' view of the current research, which future studies can complete. In addition, future articles deal with other dimensions of Islamic business ethics in the reporting field so that a collection can be organized, which might manifest economic activities based on Islamic religious beliefs.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest concerning this article's research, authorship, or publication.

Funding

The authors received no financial support for this article's research, authorship, or publication.

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Bibliographic information of this paper for citing:

Ahmadian, Vahid; Namvar, Roghayeh & Hamed, Meysam (2024). Reporting under Islamic Practices, a Path forward to Environmental, Social, and Corporate Governance (ESG) Considerations. *Iranian Journal of Finance*, 8(4), 82-112.
