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SUSTAINABILITY AND FINANCIAL PERFORMANCE NEXUS: EVIDENCE FROM JORDANIAN ISLAMIC BANKING

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Abstract

This study examines the relationship between Sustainability and Financial Performance of Jordanian Islamic banks. The relevant independent variables in this study include environmental, social, and economic variables, while ROA and ROE are dependent variables. The analysis is based on data collected from four banks between 2019 and 2025. Based on annual reports, sustainability reports, social responsibility reports, and financial statements. The results show that sustainability has a significant effect on ROA, whereas it has no significant effect on ROE. This suggests that the related evidence for the banking sector remains limited and inconclusive. This study recommends that banks underscore the importance of establishing appropriate frameworks for prudent investment and financial policies. Bank management should focus on making proper operational decisions to maximize revenue and profits. These measures will help enhance the sustainability of banks' issue reports if their aims and activities are aligned with the goals of environmental, social, and economic sustainability.

Keywords: *Islamic Banks, ROA, ROE, Sustainability, Environmental, Social, Economic.*

1. INTRODUCTION

The international financial framework has progressively highlighted the incorporation of sustainability principles into banking operations, leading to an expanding corpus of research on the relationship between sustainable practices and financial results (Saif & Alshammari, 2025; Jan et al., 2019). Islamic banks are inherently obligated to adhere to ethical and socially responsible principles, rendering the relationship between sustainability and financial performance a significant focus of investigation within contemporary sustainability frameworks (Putra, Hardyansah, & Arifin, 2022; Shahimi & Zahari, 2025). The precise aspects of this relationship within the Jordanian Islamic banking sector are underexplored, require a dedicated investigation of the impact of sustainability activities on financial performance (Srouji et al., 2023). This study seeks to address this research gap by examining empirical data linking sustainability to financial performance, thus enhancing the overall comprehension of responsible finance within distinct environmental, social, and economic contexts.

Although Islamic finance is fundamentally aligned with ethical principles, empirical evidence explicitly connecting sustainability activities to financial performance in Jordanian Islamic banking is scarce (ALHaija et al., 2024). This study uniquely examines Jordanian Islamic banks, a relatively unexplored domain, to analyze the impact of particular sustainability factors on financial performance.Mukhtar et al. (2023). This geographical and institutional distinctiveness provides nuanced insights into how sustainability efforts, often perceived as additional costs, might translate into measurable financial benefits or detriments (Al Adawiyah et al., 2025). This study seeks to elucidate the distinct and collective effects of sustainability's environmental, social, and economic facets on critical financial indicators, such as return on equity and return on assets (Srouji et al., 2023).

This approach, which transcends general theories to establish empirically validated relationships within a specific financial ecosystem, is crucial for understanding the strategic implications of

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integrating sustainability into operational frameworks (Magableh et al., 2025; Alqirem & Al-Smadi, 2025). The study's findings will assist regulators and investors in Jordanian Islamic banks in comprehending the influence of sustainability on the stock market and corporate financial performance, as indicated by the conclusions (Nawaiseh, 2015; Muneer et al., 2025). This study is particularly relevant due to the increasing global focus on sustainable finance and the unique capacity of Islamic financial institutions to spearhead such initiatives (Raimi, Abdur & Ashafa, 2024). This paper aims to address this gap by investigating the complex interrelationship between sustainability practices and financial performance the Jordanian Islamic banking sector from 2019 to 2025.

The progression of sustainability reporting, especially in the financial industry, has been propelled by heightened stakeholder demands for openness and accountability for environmental, social, and economic activities (Fagbemi, Saah, Nduka, & Aloke, 2025). This alteration in the paradigm necessitates a comprehensive examination of how such reporting influences financial outcomes, particularly in ethically driven institutions, such as Islamic banks (Siregar, 2025). The distinctive operational framework of Islamic banking, governed by Sharia principles that intrinsically advocate ethical and socially responsible practices, positions it as a leader in sustainable financial projects (Muneer et al., 2025). Consequently, previous research has frequently underscored the disparities in sustainability disclosure between Islamic and conventional banks, accentuating the distinct stakeholder expectations and operational philosophies of the latter (Tasnia et al., 2023). Despite these practices aligning with sustainability principles, empirical research on their specific impact on the financial performance of Islamic banks, particularly Jordan, remains insufficient (Jan et al., 2019).

This research aims to elucidate how compliance with sustainability principles can either bolster or undermine the financial viability of Islamic banks within a certain economic situation. The subsequent portions of this study will encompass a comprehensive literature review detailing current theoretical frameworks and empirical findings. The subsequent sections of this work are structured as follows. Section 2 delineates the preceding research pertinent to the topic. Section 3 delineates the data and the sample organized by countries and regions, along with the model and measurement variables. Section 4 encompasses the empirical analysis and robustness assessments. Section 5 concludes. This comprehensive analysis will provide a crucial foundation for subsequent research investigating the long-term strategic benefits and challenges associated with sustainable banking.

2. LITERATURE REVIEW

The increasing expectations from stakeholders for accountability and transparency concerning economic, social, and environmental practices have driven the advancement of sustainability reporting, particularly within the financial industry (Alroud, 2025). This paradigm shift necessitates a comprehensive examination of how such reporting influences financial outcomes, particularly in ethically driven institutions such as Islamic banks (Al Adawiyah et al., 2023). Islamic banking leads sustainable finance activities due to its unique operational architecture grounded on Sharia principles that inherently promote ethical and socially responsible conduct (Shahimi & Zahari, 2025). Consequently, prior research has frequently underscored the disparities in sustainability disclosures between Islamic and conventional banks, accentuating the distinct stakeholder expectations and operational philosophies of the latter (Al-Smadi, Al-Smadi, & Ali, 2020; Basri, 2025). Despite the inherent alignment with sustainability principles, empirical information about the specific impact of these practices on the financial performance of Islamic banks, particularly in the Jordanian context, is inadequately explored (Al-Khazaleh et al., 2018).

The growing necessity for financial institutions to demonstrate robust environmental and social responsibility with economic success highlights a significant vacuum in the literature (Alqudah et al.,

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2024). Consequently, a comprehensive analysis of the quantifiable effects of sustainability reporting on the financial performance of Jordanian Islamic banks is necessary for both academic and practical stakeholders (Alroud et al., 2025). Specifically, given that these governance processes significantly influence the quantity and quality of sustainability reporting in Islamic banks, it is essential to examine board characteristics such as independence and diversity concerning CSE disclosures (Muneer et al., 2023). Previous research indicates that the qualifications and composition of a bank's board of directors positively influence corporate social responsibility disclosures in Jordanian Islamic banks (Al-Zaqeba et al., 2023).

Furthermore, the incorporation of Sharia supervisory boards and specialized sustainability committees within these institutions highlights the distinctive governance frameworks that influence their environmental disclosure practices and, subsequently, their financial sustainability (Muneer et al., 2025; Yusuf et al., 2023). Previous research indicates that the qualifications and composition of a bank's board of directors positively influence corporate social responsibility disclosures in Jordanian Islamic banks (Al-Zaqeba et al., 2023). Further research is required to ascertain the impact of these structures on the quality of integrated reporting and to elucidate the unique interactions between corporate governance systems and Islamic banking practices (Alkhawaldeh, Alhawamdeh, Almarshad, Fraihat, Abu-Alhija, Alhawamdeh & Ismaeel, 2023; Amayreh, 2023). Furthermore, it is essential to understand the interplay between corporate governance and environmental disclosure in ensuring the financial sustainability of Islamic banks, particularly in under-researched regions (Muneer et al., 2025). Additionally, further investigation is warranted into the role of audit committees and boards of directors in fostering integrated reporting practices, particularly with the possible influence of board diversity on integrated reporting within Islamic banking (El-Deeb & Mohamed, 2024).

Furthermore, robust Environmental, Social, and Economic frameworks can enhance the ethical and financial sustainability of these entities when effectively integrated with Islamic compliance frameworks, as the quality of Shariah governance is acknowledged as a pivotal factor affecting performance (Ahmad et al., 2023). This necessitates an analysis of the influence of different dimensions of Shariah-related disclosure, encompassing both obligatory and discretionary reporting, on financial results in the context of Jordanian Islamic banks (Abdulrahman et al., 2024). Therefore, examining the effects of revealing Shariah-compliant ethical investing policies and social welfare activities on profitability indicators like Return on Assets and Return on Equity offers critical insights into the financial benefits of these distinctive sustainability efforts. This research necessitates an understanding of the intricate interaction between Sharia-compliant sustainability disclosures and the financial resilience and growth trajectories of Islamic banking institutions (Muneer et al., 2025; Monica et al., 2025). This comprehensive study will elucidate the influence of the distinctive integration of Sharia principles and contemporary sustainability practices on the financial sustainability of Islamic banks in Jordan.

It is essential to examine the intricate relationship between internal corporate governance structures, including the Board of Directors and Sharia supervisory boards, and their impact on the level and quality of sustainability reporting to comprehend financial outcomes (Wijayanti & Setiawan, 2022).This entails examining how the composition and autonomy of these boards influence the thoroughness of disclosures, hence affecting their impact on financial performance metrics. Furthermore, factors such as management practices and CEO characteristics can significantly influence a bank's commitment to sustainability and the quality of its integrated reporting, offering further avenues for exploration within this relationship (Ardianto et al., 2024). The regulatory framework, encompassing national banking legislation and international sustainability standards, profoundly impacts the implementation and efficacy of sustainability policies in Jordanian Islamic banks and their financial performance trajectory (Qudah & Alqudah, 2026).

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This study seeks to address the knowledge gap by empirically examining the relationship between sustainability and financial success in Jordanian Islamic banks. This paper's conceptual framework delineates environmental, social, and economic elements as independent factors, with financial success as the dependent variable. This study examines the influence of environmental, social, and economic factors on Return on Assets and Return on Equity for a sample of four Jordanian Islamic banks from 2019 to 2025. This extensive study will enhance existing research by providing actual information regarding the financial effects of sustainability initiatives within a distinct regional and religious banking context. The results will offer valuable insights for policymakers, bank executives, and stakeholders regarding the strategic incorporation of sustainable practices to enhance financial performance in Islamic banking. This study will employ stringent econometric methods to measure the interrelations among these variables, offering a data-driven examination of how Sharia-compliant financial institutions might strategically leverage sustainability to achieve improved financial outcomes. The following sections of this paper will outline the methodological approach, present empirical data, and provide an in-depth discussion of the findings, concluding with recommendations for future study and practice.

2.1 Theoretical Framework of Sustainability and Financial Performance

This section delineates the theoretical underpinnings that inform the analysis of the relationship between sustainability aspects and financial performance within the Jordanian Islamic banking sector. This framework integrates established theories, such as stakeholder theory, legitimacy theory, and the resource-based view, which collectively posit that a firm's commitment to environmental, social, and economic sustainability practices can improve its financial performance (Chipimo et al., 2025; Mansour et al., 2025). Stakeholder theory asserts that sustainability initiatives can fulfill the requirements of several stakeholders, including employees, consumers, and the community, while enhancing reputation and ensuring long-term financial stability. Legitimacy theory asserts that corporations undertake social and environmental disclosures to align their operations with societal values and norms, so securing their legitimacy and operational license. The resource-based view posits that sustainable practices can foster the creation of unique intangible assets, including brand equity and enhanced human capital, which may serve as sources of enduring competitive advantage and superior financial performance (Akhter et al., 2023; Khan, Yang & Waheed, 2019).

The concepts are especially pertinent to Islamic finance, as Sharia principles inherently align with ethical and sustainable economic practices. This indicates a heightened potential for favorable financial returns due to the incorporation of sustainability (Jan et al., 2019). The intrinsic alignment indicates that Islamic banks are inherently predisposed to adopt sustainable practices that may enhance financial performance (Jan et al., 2023). Furthermore, integrating sustainability into the Islamic financial framework corresponds with the principle of Maqasid al-Shariah, which underscores the importance of welfare and public interest, thereby strengthening the theoretical link between sustainable practices and favorable financial outcomes (Mohd Zain et al., 2023). Empirical evidence substantiates this theoretical viewpoint, indicating that robust environmental, social, and governance standards correlate with improved financial performance, market valuation, and operational efficiency within the banking industry (Yousef, 2026; Aslam & Jawaid, 2023). The integration of known theories and principles of Islamic finance offers a robust conceptual framework to investigate the specific processes by which sustainability initiatives influence the financial performance of Jordanian Islamic banks (Al-Malkawi, & Pillai, 2018).

Additional research indicates that aligning Islamic business sustainability strategies with the Sustainable Development Goals enhances financial performance, often via mechanisms like risk-sharing contracts (Raimi, Abdur-Rauf & Ashafa, 2024). Nonetheless, these insights have proven inadequate to address a significant deficiency in the literature concerning a systematic, multi-

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dimensional examination of the components of environmental, social, and economic sustainability and their cumulative effect on the financial performance of Islamic banks, particularly within the Jordanian context (Hajar & Hajer, 2024). Furthermore, although certain studies investigate the sustainability disclosures of Islamic banks, revealing that they provide more information than conventional banks (Nobanee & Ellili, 2016), a disparity persists between the ideals of the Islamic moral economy and the actual practices in environmental, social, and economic disclosures (Haladu, Bin-Nashwan, & Idris, 2025).

Empirical research has demonstrated a significant correlation between effective environmental policies and enhanced financial performance in many financial institutions, including Islamic banks (Chen et al., 2025). The integration of environmental disclosure and management systems can improve operating efficiency and reduce regulatory risks, hence enhancing profitability (Lin & Qamruzzaman, 2023). Research indicates that enhanced environmental performance significantly increases return on equity (Achim & Borlea, 2014). Incorporating environmental considerations into banking procedures not only mitigates ecological impacts but also conforms to the ethical tenets of Islamic finance, potentially attracting socially responsible investors (Khaliq, 2023). Moreover, by proactively tackling environmental issues and adopting sustainable practices, Islamic banks can enhance their brand reputation and market presence, therefore promoting enduring financial stability and growth (Andespa et al., 2019). This complete strategy, which combines environmental management with financial expertise, is particularly crucial in regions like Jordan, where resource constraints and the impacts of climate change are more evident, requiring innovative and sustainable financial solutions.

The correlation between social responsibility and financial performance in Islamic banking is substantial, as Sharia principles prioritize social justice and equitable income distribution. This fundamental premise indicates that banks prioritizing community welfare, ethical investments, and fair labor practices are likely to establish robust stakeholder relationships and attain enduring financial stability (Kamla & Rammal, 2013). Research indicates that strong social performance, including employee welfare, community engagement, and customer satisfaction, correlates with enhanced financial success, such as return on assets and return on equity (Alslaibi & Abdalkarim, 2024). This results from robust social activities that enhance staff morale, productivity, and loyalty, hence reducing operational costs and augmenting profitability (Haddad, 2017). Moreover, augmenting social openness, especially about environmental impacts in vulnerable sectors, was observed to mitigate reputational risks and elicit a favorable market response in Indonesia, hence improving financial performance (Ebbini et al., 2025).

The financial performance of Islamic banks is affected by intricate economic factors such as corporate governance, market competition, and capital structure, which are essential for assessing profitability and operational efficiency. Specifically, the effective utilization of economic capital, compliance with robust risk management frameworks, and strategic engagement in competitive market dynamics are crucial for sustaining financial sustainability and growth (Batiuk & Kuzyk, 2025). In the Jordanian environment, it is essential to assess the influence of market concentration, regulatory frameworks, and national economic policies on the return on assets and return on equity of Islamic banks. This involves evaluating the role of economic disclosures, both voluntary and mandatory, in influencing the relationship between economic activity and financial outcomes. The impact of these economic factors is evident in the efficient allocation of resources, as the profitability and operational efficiency of Islamic banks are directly linked to their capacity to navigate and leverage existing macroeconomic conditions (Fraihat, Ahmad, Alaa, Alhawamdeh, Soumadi, Aln'emi & Alkhawaldeh, 2023; Al Sharif, 2005).

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3. RESEARCH METHODOLOGY

3.1 Data and Sample

This study's sample comprises four Jordanian Islamic banks, spanning the period from 2019 to 2025. These denote the most recent years for which banking data was accessible. Consequently, this research gathered financial statement data for these banks from the Bankscope database. Amman Stock Exchange, Central Bank of Jordan, and yearly reports from individual banks, including sustainability and social responsibility reports.

3.2 Model and Measurements

STATA will be employed to test the formulated hypotheses, utilizing a panel data regression model to assess the influence of environmental, social, and economic sustainability dimensions on financial performance, specifically Return on Assets and Return on Equity (Al Amosh, Khatib & Ananzeh, 2023). The choice of a panel data model is especially beneficial for its ability to account for unobserved heterogeneity that may occur among banks or across time, hence improving the internal validity of the results. The choice between fixed or random effects models in panel regression approaches will be based on statistical tests to accurately reflect the distinct characteristics of each bank and the temporal dynamics of the data (Istaiteyeh et al., 2023). Thereafter, the Hausman test will determine the selection between fixed effects and random effects to provide optimal model specification for the dataset (Al Hallaq, Ajlouni, & Al-Douri, 2019).

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis

Table 4.1 presents descriptive data for the variables, encompassing their means, minimum and maximum values, and standard deviations. The average Return on Assets (ROA) is 0.013, with a minimum of 0.008 and a maximum of 0.017. The findings also reveal a standard deviation of 0.002 for ROA. In the case of ROE, the results indicate that the mean, minimum, and maximum values are 0.09, 0.15, and 0.121, respectively. The standard deviation is evaluated at 0.016, indicating reasonable profitability levels. The economic dimension exhibits the greatest mean, succeeded by the social dimension, whilst the environmental dimension registers the lowest average.

Conversely, inside the realm of independent variables. The findings reveal a mean environmental score of 0.527, with a minimum of 0.35, a maximum of 0.7, and a standard deviation of 0.097. The findings reveal that the average value of social is 0.636, with a minimum of 0.5 and a maximum of 0.76. The social metric has a standard deviation of 0.07. Furthermore, the findings reveal that the average economic value is 0.735, with a minimum of 0.6 and a maximum of 0.86. The economy has a standard deviation of 0.07. The control variables reveal that the mean value of Bank Size is 9.625, with a minimum of 9 and a maximum of 10.2. The standard deviation is 0.317. The data reveal a mean age of 23.875, with a minimum of 10, a maximum of 47, and a standard deviation of 13.424.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	24	.013	.002	.008	.017
ROE	24	.121	.016	.09	.15
Environmental	24	.527	.097	.35	.7
Social	24	.636	.07	.5	.76
Economic	24	.735	.07	.6	.86
Bank Size	24	9.625	.317	9	10.2
Age	24	23.875	13.424	10	47

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4.2 Correlation Analysis

Table 4.2 displays the correlation matrix for all variables. The present study utilized Pearson correlation analysis to ascertain the relationship between the independent and control variables and the financial performance of Jordanian Islamic banks.

The research employed a 95% confidence interval and conducted a two-tailed test, revealing a substantial association among all independent and control factors with the banks' financial performance.

The correlation matrix revealed a strong association of 0.964 between financial success and environmental factors. Social was (0.953) and Economic was (0.948). It is crucial to acknowledge that the correlations among the sustainability variables are exceedingly high, especially between the Social and Economic dimensions, as well as with Environmental performance, indicating the absence of multicollinearity among the explanatory variables. Such elevated intercorrelations may compromise the reliability of regression estimates and should be examined in further analysis. (Lewis-Beck, 1993; Gujarati, 2004; Dawson, 2014).

Table 4.2: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	1.000						
(2) ROE	0.961	1.000					
(3) Environmental	0.964	0.932	1.000				
(4) Social	0.953	0.978	0.969	1.000			
(5) Economic	0.948	0.978	0.968	0.999	1.000		
(6) Bank Size	0.937	0.983	0.949	0.993	0.993	1.000	
(7) Age	0.271	0.252	0.310	0.229	0.226	0.258	1.000

4.3 Regression Results

This section delineates the outcomes of multivariate regression analysis for the three principal models in this study. Which were forecasted utilizing panel data analysis to investigate the relationship of Jordanian Islamic banks. This research utilizes pooled OLS, random effects, and fixed effects models to assess its aims.

The three models are evaluated by various statistical tests to ascertain the best suitable results for this investigation. The Breusch-Pagan LM test is performed to evaluate pooled OLS against panel regression outcomes. The Hausman test is utilized to assess random and fixed effect models in panel regression research.

Table 4.3 displays the outcomes of the initial model, wherein Return on Assets (ROA) is regressed against Environmental, Social, Economic factors, Bank Size, and Age. The results of the Breusch-Pagan LM test (5.33, p-value = 0.002) and the Hausman test (9.10, p-value = 0.105) indicate that the Random Effects model is the most suitable for this investigation.

The findings demonstrate that sustainability adversely impacts banks' ROA at a 5% significance level. Likewise, bank size and age, as control variables, demonstrate a substantial positive correlation with profitability.

The OLS estimator results demonstrate that bank age adversely affects ROA at the 1% significance level. Furthermore, the findings suggest that bank size and age do not significantly influence ROA.

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Table 4.3: Result of panel data analysis ROA and ROE

	ROA			ROE		
	Pooled OLS	**Random**	**Fixed**	**Pooled OLS**	**Random**	**Fixed**
Constant	-.061 (0.478)	-0.012 (0.702)	0.046 (0.478)	-0.36 (0.478)	-0.256 (0.121)	0.286 (0.377)
Environmental	-.011 (0.039)	0.018 (0.02)	0.036 (0.039)	-3.56 (0.039)	-0.022 (0.59)	0.181 (0.039)
Social	0.00 (0.27)	0.065 (0.202)	0.026 (0.626)	0.00 (0.27)	0.075 (0.779)	0.131 (0.626)
Economic	0.00 (0.10)	-0.071 (0.149)	0.017 (0.786)	0.00 (0.10)	0.024 (0.926)	0.087 (0.786)
Bank Size	.008 (-2.09)	0.003 (0.595)	-0.006 (0.48)	0.05 (-2.09)	0.034 (0.202)	-0.03 (0.48)
Age	0.00 (0.039)	0 (0.653)	-0.001 (0.065)	1.50 (0.039)	0 (0.709)	-0.005 (0.065)
Breusch-Pagan LM test		5.33 (0.002)			0.0002 (0.0158)	
Hausman test			9.10 (0.1052)			10.42 (0.0642)
R-squared	0.8304	0.904	0.934	0.889	0.891	0.934

Notes: Standard errors in parentheses; **** p<.01, ** p<.05, * p<.1*

Conversely, Table 4.3 presents the results of the model examining the impact of sustainability on banks' ROE. These results demonstrate analogous relationships, so confirming that both models yield consistent findings concerning the impact of sustainability on ROE. The random effects model demonstrated greater appropriateness than the fixed effects model in this investigation. The random effects model results demonstrate a statistically significant correlation between sustainability and ROE in Jordanian Islamic banks. Similarly, bank size exhibits a positive correlation with ROE at a 1% significance level. Nonetheless, age is deemed inconsequential in the analysis. The Breusch-Pagan LM and Hausman test findings validate the suitability of the Random effects model for this investigation.

5. CONCLUSIONS AND RECOMMENDATIONS

A plethora of studies has examined the correlation between sustainability and financial performance; nonetheless, the inconclusive findings have prompted us to undertake this investigation. The statistical analysis results demonstrated the relationship between sustainability and financial performance: Evidence from Jordanian Islamic banking. This may be attributed to the preeminence of Jordan Islamic Bank in the sector, which facilitated its expansion of market share.

The findings indicated that Jordan Islamic Bank ranked first in the implementation of sustainability factors (economic, environmental, and social) relative to other banks. It is among the inaugural Jordanian banks to prioritize sustainability and commit to the regular publication of sustainability reports. The results of hypothesis testing demonstrate a statistically significant impact of sustainability on financial performance, as measured by ROA, in Jordanian Islamic institutions. However, there was no statistically significant impact of sustainability on the financial success, as measured by ROE, in those institutions. The findings indicated a substantial influence of economic impact on the financial performance of Islamic banks, whereas the effects of environmental and social dimensions on their financial performance were inconsistent. This discrepancy may arise from the prioritization of economic activities by the community and private investors, who emphasize the bank's capacity to fulfill financial objectives and enhance their wealth over other activities undertaken by the institution.

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Future research indicates that bank management and advisors ought to strengthen and maintain sustainability reporting to bolster financial performance, while also adopting other strategies to further boost this performance. Augmented monitoring to mitigate significant anticipated disasters, including pandemics, economic downturns, and banking regulations.

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