

Islamic Accounting and ESG Integration for Sustainable Development:

A Value-Driven Framework for Ethical Reporting and Sustainability Performance in Shariah- Compliant Firms

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ABSTRACT: While sustainability reporting has become a hallmark of corporate accountability in global capital markets, traditional Environmental, Social, and Governance (ESG) frameworks continue to be largely secular, and they frequently fail to consider the ethical and spiritual aspects that are a part of faith-based accounting frameworks. This study proposes and empirically examines a value-driven conceptual framework that facilitates the relationship between Islamic accounting practices and the quality of ESG disclosure for Shariah-compliant firms and then the link between ESG disclosure quality and sustainable development performance, in which the role of Shariah governance is modeled as a boundary condition moderator. Based on Stakeholder Theory, Maqasid al-Shariah, and Legitimacy Theory, the study proposes that Islamic accounting practices (compliance with AAOIFI standards, disclosure based on Sharia, transparency in the application of Zakat, and ethical reporting) are antecedents of high-quality ESG disclosure (environmental, social, and governance) sub-dimensions, and that high-quality ESG disclosure partially mediates the link between Islamic accounting practices and the sustainable development performance (economic sustainability, social impact,

environmental efficiency, and alignment with Sustainable Development Goals (SDGs)). The model was estimated using Partial Least Squares Structural Equation Modeling (PLS-SEM) in Software SmartPLS 4 with survey data gathered from finance, accounting, and Shariah-compliance officers in the Shariah-compliant listed firms, supplemented by archival disclosures in listed firms. Robustness checks were conducted in a panel subsample using System Generalized Method of Moments (GMM) technique. The results show that Islamic accounting practices have a significant positive effect on ESG disclosure quality, ESG disclosure quality appears to have a positive effect on sustainable development performance, Islamic accounting practices have both direct and indirect effect on sustainable development performance through the mediation of ESG disclosure quality and Shariah governance significantly enhances the relationship between Islamic accounting practices and ESG disclosure quality. The findings contribute to the literature of ESG by introducing Maqasid al-Shariah as a substantial theoretical framework in sustainability research and are of practical use to standard setters, Islamic financial institutions, Shariah supervisory board, policy makers and socially responsible investors as a replicable, hybrid measurement framework. Regulatory implications for harmonising AAOIFI standards and global ESG taxonomies are addressed, as well as limitations and recommendations for further research.

Keywords: *Islamic Accounting, ESG Disclosure Quality, Shariah Governance, Maqasid al-Shariah, Sustainable Development Performance, Stakeholder theory, Legitimacy theory, PLS-SEM.*

Introduction

The growing global focus on sustainable development has shifted the reporting focus of corporations from financial performance to a model of corporate reporting that now comprises environmental stewardship, social welfare, and governance integrity (Elalfy et al., 2021; Baldini et al., 2018). As a leading means for companies to convey their sustainability values to stakeholders, regulators and capital markets, the ESG framework has become the most widely-used language (Amel-Zadeh & Serafeim, 2018). However, the underlying structure of the ESG models in the mainstream of the industry are overwhelmingly secular, technocratic and shareholder-derivative in nature, based on Anglo-American corporate governance codes and voluntary disclosure standards like the

Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) (Tsalis et al., 2020). However, this orientation largely neglects an important accountability tradition, Islamic accounting, which is a financial reporting system based explicitly on Islamic concepts of justice, trust (Amanah) and welfare of the stakeholder (Maali et al., 2006; Kamla & Rammal, 2013). Islamic accounting is not just merely the ban on interest (riba) and the ban on speculative uncertainty (gharar) but the very premise that the firm is a trustee of resources to God, shareholders, employees, community and environment (Haniffa & Hudaib, 2007).

The reporting requirements associated with Islamic accounting, namely compliance with Accounting and Auditing organization for Islamic Financial Institutions (AAOIFI) standards, reporting of permissible and impermissible income, Zakat computation and transparency and the disclosure of other ethical matters, are thus inherently linked to the spirit, if not necessarily the letter, of the modern ESG disclosure regime (Kamla, 2009; Ullah et al., 2018). Despite this conceptual affinity, however, there has been a lack of empirical research that directly link Islamic accounting practices and quality of ESG disclosure, nor how and to what extent it translates into measurable sustainable development outcomes (Alsaadi, 2021; Platonova et al., 2018). This gap is significant for at least three reasons.

Firstly, the Islamic financial sector and the sharia-compliant financial ecosystem today accounts for a significant and fast-expanding share of global capital markets, with estimates of sharia-compliant financial assets reaching out trillions of US dollars and the growing expansion of cross-border sharia-compliant investment mandates and standards (Islamic Financial Services Board, 2023; Refinitiv, 2022). What investors and regulators need is strong and well-founded evidence around whether the faith-based accounting practices truly improve sustainability disclosure and performance or are simply symbolic and/or a legitimacy-seeking endeavor (Belal et al., 2015). Second, the unique governance system of Islamic finance – Shariah Supervisory Boards (SSBs) – provides an oversight system with no counterpart in non-Islamic ESG governance, which has, to date, not been sufficiently theorised or tested (Nomran & Haron, 2020; Grassa & Chakroun, 2016). Third, through a survey of policy makers from member countries of the Organisation of Islamic Cooperation (OIC), it was found that there is a strong interest in harmonized reporting that

will reconcile the domestic Shariah Governance (DSG) reporting codes with other international taxonomies like the SDGs, but no empirically validated integrative model to guide standard setting (Mohammed & Muhammed, 2017). Therefore, this study aims to respond to the research question: How and in what governance conditions do Islamic accounting practices affect the quality of ESG disclosure and sustainable development performance of Shariah-compliant companies?

To address this issue, the study constructs the conceptual framework based on moderated mediation where Islamic accounting practices as independent variables are expected to impact sustainable development performance as dependent variables, and ESG disclosure quality as a mediator links the relationship between the two, and shariah governance as a moderator increases the relationship between the two variables. The framework is based on three different theories: the Stakeholder Theory, which addresses why companies need to be accountable to a wide range of stakeholders other than shareholders (Freeman, 1984); the Maqasid al-Shariah (The higher objectives of Islamic law) which provides the normative component to the welfare, justice and protection of life, faith, intellect and lineage which Islamic accounting is designed to serve (Chapra, 2008; Dusuki & Bouheraoua, 2011); and the Legitimacy Theory which explains the firms' motives in adopting 'visible' disclosure practices to gain social acceptance and 'license to operate' (Suchman, 1995; Deegan, 2002).

The study has three main contributions to the literature. On the one hand, it provides one of the first empirically-validated frameworks that uses constructs of Islamic accounting directly integrated with globally recognized ESG disclosure sub-dimensions (environmental, social, and governance) which have largely evolved independently. Second, it introduces Maqasid al-Shariah as a non-symbolic, substantive and explanatory construct in the empirical field of sustainability-accounting, as instead of in the traditional arena of Islamic jurisprudence and Islamic banking performance studies.

Third, it is a hybrid instrument of primary survey and archival data on firms' disclosures, tested using Partial Least Squares Structural Equation Modeling (PLS-SEM) and cross-validated with System GMM, which provides methodological triangulation not common in this strand of literature. Fourth, the study offers actionable and differentiated conclusions for four key stakeholder groups, who are directly relevant to current international

discussions on realignment of Islamic finance governance with global ESG frameworks: policymakers, Islamic financial institutions, Shariah supervisory boards and investors. The rest of the paper has the following structure.

Section 2 provides a literature review on Islamic accounting, ESG disclosure, Shariah governance, sustainable development performance, and forms the theoretical basis of the study. The conceptual framework and hypotheses are provided in Section 3. The research methodology is discussed in Section 4, which comprises of sample, measures, and analytical strategy. The results of the measurement and structural models are reported in section 5. The results are examined in the context of the related literature in Section 6. The theoretical, policy and practical implications are addressed in Section 7. Section 8 discusses limitations and suggests areas for future research and Section 9 concludes.

2. Literature Review and Theoretical Foundations

2.1 Islamic Accounting Practices

Islamic accounting is the accounting system that records, measures and communicates financial and non-financial information based on Shariah values, especially the prohibition of *riba* (interest), *gharar* (excessive uncertainty) and *maysir* (gambling) and the positive injunction of *Zakat* on assets that are subject to it (Maali et al., 2006; Baydoun & Willett, 2000). Unlike conventional accounting which is mainly focused towards the decision usefulness of capital providers, Islamic accounting is explicit teleological accounting, which is aimed at discharging the accountability (*hisab*) before God and the community of stakeholders (Lewis, 2001; Kamla & Rammal, 2013). The empirical literature identifies four practices as essential operationalisations of Islamic accounting: compliance with the AAOIFI financial and governance standards (Vinnicombe, 2010); disclosure of the permissibility of receipts and expenditure (Haniffa & Hudaib, 2007); transparency on the calculation and disbursement of *Zakat* (Ullah et al., 2018); and more general ethical disclosures covering fair dealing, employee well-being and community engagement (Kamla, 2009). Previous research notes high levels of heterogeneity in the adoption of these practices, influenced by national regulatory requirements, characteristics of Shariah Supervisory Boards and degree of cross-listing internationally (Grassa & Chakroun, 2016; Nomran & Haron, 2020).

2.2 ESG Disclosure Quality

ESG disclosure quality is the extent of information available to and provided by the firms on environmental, social, and governance (ESG) performance that is comprehensible, reliable, and useful for decision-making (Clarkson et al., 2008; Michelon et al., 2015). The construct is usually operationalized on 3 sub-dimensions: environmental disclosure (emissions, use of resources, and environmental risk management (Cormier & Magnan, 2015); social disclosure (labor practices, community engagement and human rights (Hess, 2007) and governance disclosure (board structure, executive accountability and anti-corruption practice (Elfeky, 2017). High quality ESG disclosure is related to lower information asymmetry, reduced cost of capital, and enhanced firm valuation (Cheng et al., 2014; Ioannou & Serafeim, 2015), however there is limited literature looking at the antecedent role of accounting systems based on Islamic principles in enhancing disclosure quality, despite the inherent focus on comprehensive and multi-stakeholder disclosure of Islamic accounting (Alsaadi, 2021; Platonova et al., 2018).

2.3 Shariah Governance

Shariah governance describes the institutional framework (mainly Shariah Supervisory Board/SSB) that Islamic financial institutions have developed to ensure that their products, operations and disclosures comply with the Shariah requirements (Garas & Pierce, 2010; Grassa, 2015). Conceptually, SSBs are different from traditional audit committees, yet they have an oversight role similar to that of the conventional audit committee, which involves reviewing overall transactional compliance as well as the adequacy of disclosure (Nomran et al., 2018). From the results of previous studies, it can be seen that the characteristics of SSB in the form of size, cross-membership, education, and reputation can greatly determine disclosure of shariah information related to quality and credibility (Farag et al., 2018; Nomran & Haron, 2020). As SSBs are placed on the nexus of religious legitimacy and financial reporting oversight, it is theorized in this study that SSBs act as a governance amplifier, and do not exert independent governance effect to enhance the conversion of Islamic accounting practice into the quality of ESG disclosure.

2.4 Sustainable Development Performance

Sustainable development performance refers to how a company's values impact sustainable development and are aligned with the United Nations Sustainable Development Goals

(SDGs) (Bebbington & Unerman, 2018; Rosati & Faria, 2019). The construct in this study is operationalized according to four dimensions: economic sustainability (long-run profitability and resource efficiency) (Schaltegger & Wagner, 2006); social impact (community welfare and stakeholder inclusion) (Hahn et al., 2015); environmental efficiency (resource & emissions intensity) (Delmas & Blass, 2010); and SDG-alignment (explicit mapping of firm activity to SDG targets) (Rosati & Faria, 2019). Islamic scholars of finance have now started to claim that the Maqasid al-Shariah offers a normatively richer basis for sustainable development than secular approaches, supporting their argument with the fact that Maqasid al-Shariah is rooted in the preservation of faith, life, intellect, lineage, and wealth (al-daruriyyat al-khams) as opposed to shareholders' value maximization (Chapra, 2008; Dusuki & Bouheraoua, 2011; Mohammed & Muhammed, 2017).

2.5 Theoretical Foundations

The hypothesized relationships are explained based on three complementary theories. Stakeholder Theory (Freeman, 1984; Donaldson & Preston, 1995) suggests that organizations should generate value for and be responsible to the wide variety of stakeholders—employees, customers, communities and the environment—as well as shareholders. When applied to Islamic accounting, Stakeholder Theory can shed light on why there should be a more comprehensive disclosure than just what is required by traditional shareholder accounting, such as Zakat transparency and ethical reporting, and why this additional disclosure is likely to produce a better disclosure of ESG than such traditional disclosures (Haniffa & Hudaib, 2007; Kamla, 2009). The second pillar to examine is maqasid al-Shariah which is the higher objective of the law: promotion of welfare (maslaha) and prevention of harm (mafsada), which is realised through five aims, namely protection of faith (din), life (nafs), intellect (aql), lineage (nasl) and riches (mal) (Chapra, 2008; Dusuki & Bouheraoua, 2011). In this study, Maqasid al-Shariah provides the logic and theory linking the practice of Islamic accounting towards the performance of sustainability: Islamic accounting is intended to ensure accountability in line with the five Maqasid; under this theory, companies that adopt Islamic accounting practices should perform broader and more robust sustainability than companies that merely comply with ESG reporting (Mohammed & Muhammed, 2017; Platonova et al., 2018). The third pillar, Legitimacy Theory, proposes that organizations resort to disclosure practices to acquire and

retain congruence with society norms and expectations in which they operate (Suchman, 1995; Deegan, 2002; O'Donovan, 2002). The moderating role of Shariah governance in this study is explained by the Legitimacy Theory, as Shariah Supervisory Boards provide a religious and social legitimacy for a firm's disclosure, and the resulting supervision is theorized to give the ESG disclosure a legitimacy that leads to its practical translation into credible disclosure.

3. Conceptual Framework and Hypotheses Development

The conceptual framework and hypotheses are developed in this section. This study is guided by the theoretical bases presented above, a moderated-mediation model is proposed where Islamic Accounting Practices (independent variable) predict Sustainable Development Performance (dependent variable) through the moderating effect of Shariah Governance (moderator variable) as well as the mediating effect of ESG Disclosure Quality (mediating variable). A summary of the hypothesized paths is provided in the conceptual model summary (Table 1) and those paths are elaborated on below.

3.1 Islamic Accounting Practices and ESG Disclosure Quality

Islamic accounting practices involves in providing information on not only financial outcome but also the shariah permissibility of transactions, the basis of deduction and allocation of Zakat and ethical aspect of dealing with employees and communities (Kamla, 2009; Ullah et al., 2018). The disclosure requirements are not entirely different from but in several aspects are also superior to the disclosure information required by the traditional concept of ESGs disclosure information, especially in the social and governance sub-dimensions (Alsaadi, 2021). Hence, if the firms possess a robust accounting framework then they have both informational infrastructure and norm within themselves to be able to formulate comprehensive ESG disclosures (Platonova et al., 2018; Haniffa & Hudaib, 2007).

H1: *Islamic accounting practices are positively associated with ESG disclosure quality.*

3.2 ESG Disclosure Quality and Sustainable Development Performance

Quality ESG disclosure helps mitigate information asymmetry between companies and stakeholders which, in turn, facilitates more effective capital allocation to environmentally and socially responsible activity and strengthens companies' internal accountability

systems that could lead to better company performance (Ioannou & Serafeim, 2015; Cheng et al., 2014). Comprehensive disclosure by companies on topics related to environmental, social, and governance (ESG) is associated with greater long-term resource efficiency, better stakeholder relationships, and greater alignment with SDGs (Rosati & Faria, 2019; Hahn et al., 2015). Accordingly:

H2: *There is a positive relationship between the quality of disclosure in ESG and the performance in the sustainable development.*

3.3 Islamic Accounting Practices and Sustainable Development Performance

In addition to its indirect effect related to disclosure of ESG' information, it is theorized that the practice of Islamic accounting has a direct impact on sustainable development performance because the principle of 'welfare and protection from harm' within the conceptual framework of Maqasid al-Shariah is already integrated into operational and financial decision-making processes, independent of formal disclosure (Chapra, 2008; Mohammed & Muhammed, 2017). Accordingly:

H3: *Islamic accounting practices are positively associated with sustainable development performance.*

3.4 The Mediating Role of ESG Disclosure Quality

In line with H1–H3, this study proposes that the relationship between Islamic accounting practices and sustainable development performance is partially mediated by quality of ESG disclosure: Islamic accounting practices have a direct effect on sustainable development performance, and they can also affect sustainable development performance indirectly by improving the quality of ESG disclosure which in turn enhances the sustainability performance (Platonova et al., 2018; Elalfy et al., 2021). Accordingly:

H4: *Islamic accounting practices have an indirect link with sustainable development performance through ESG disclosure quality.*

3.5 The Moderating Role of Shariah Governance

Smears of Shariah Supervisory Boards (SSB) are independent auditing of the extent to which a firm's practices and disclosures are genuinely following Shariah principles (Grassa, 2015; Nomran et al., 2018). With good SSB oversight, in terms of the number of

boards, cross-institutional reputation and scholarly qualifications of board members, the credibility and rigor of the application of Islamic accounting practice will be reinforced, which in turn enhances the translation of the practice into quality disclosure, whereas with poor SSB oversight, the application of Islamic accounting practice may simply remain symbolic and generate a less salient disclosure response (Farag et al., 2018; Nomran & Haron, 2020). Accordingly:

H5: *Islamic accounting practices are positively moderated by the positive value of Shariah governance; therefore, Islamic accounting practices are stronger with high shariah governance.*

3.6 Summary of the Conceptual Model

Table 1 summarizes the five hypotheses, their theoretical grounding, and the hypothesized direction of each path.

Hypothesis	Path	Theoretical Grounding	Direction
H1	Islamic Accounting Practices → ESG Disclosure Quality	Stakeholder Theory	Positive
H2	ESG Disclosure Quality → Sustainable Development Performance	Legitimacy Theory	Positive
H3	Islamic Accounting Practices → Sustainable Development Performance	Maqasid al-Shariah	Positive
H4	Islamic Accounting Practices → ESG Disclosure Quality → Sustainable Development Performance (mediation)	Stakeholder Theory / Maqasid al-Shariah	Positive (partial mediation)
H5	Shariah Governance × Islamic Accounting Practices → ESG Disclosure Quality (moderation)	Legitimacy Theory	Positive moderation

4. Research Methodology

4.1 Research Design and Context

This is a quantitative, cross-sectional survey design, similar to other studies that used PLS-SEM design in Islamic accounting and sustainability research (Platonova et al., 2018; Alsaadi, 2021). The rationale for selecting the empirical context in this study is due to the fact that many Shariah-compliant listed firms and Islamic financial institutions in selected OIC countries are subjected to a dual requirement of Shariah governance standards aligned with AAOIFI and pressure in regards to producing ESG disclosures in accordance with

international capital markets (Islamic Financial Services Board, 2023). This double institutional exposure makes the setting suitable to testing the hypothesized integration between Islamic accounting and ESG disclosure frameworks. In this section, students will learn how to sample and collect data. In order to secure primary survey data, members of the finance and accounting departments and shariah-compliance departments in the firms were approached, where they are directly involved in the decision-making process regarding financial and sustainability disclosure in their companies based on the criteria of having knowledge about Islamic accounting and the process of disclosure sustainability (Podsakoff et al., 2012). All latent constructs were measured with a structured questionnaire with five points Likert scale (1 = strongly disagree and 5 = strongly agree). Data screening for missing responses, straight lines, and outliers resulted in a usable sample for analysis following the sample sizes usually encountered in PLS-SEM research in this field (Hair et al., 2019). The data gathered from firm-level annual and sustainability reports were merged in a matched panel to ensure that the disclosure practices reported are consistent with actual reporting behavior in the market, as done in similar governance-disclosure research (Elfeky, 2017; Michelon et al., 2015).

4.2 Sample and Data Collection

This is a quantitative, cross-sectional survey design, similar to other studies that used PLS-SEM design in Islamic accounting and sustainability research (Platonova et al., 2018; Alsaadi, 2021). The rationale for selecting the empirical context in this study is due to the fact that many Shariah-compliant listed firms and Islamic financial institutions in selected OIC countries are subjected to a dual requirement of Shariah governance standards aligned with AAOIFI and pressure in regards to producing ESG disclosures in accordance with international capital markets (Islamic Financial Services Board, 2023). This double institutional exposure makes the setting suitable to testing the hypothesized integration between Islamic accounting and ESG disclosure frameworks. In this section, students will learn how to sample and collect data. In order to secure primary survey data, members of the finance and accounting departments and shariah-compliance departments in the firms were approached, where they are directly involved in the decision-making process regarding financial and sustainability disclosure in their companies based on the criteria of having knowledge about Islamic accounting and the process of disclosure sustainability (Podsakoff et al., 2012). All latent constructs were measured with a structured

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4.3 Measures

Islamic Accounting Practices was measured as a second-order, reflective-formative construct with four first-order dimensions, namely AAOIFI compliance, Shariah disclosure, Zakat transparency and ethical reporting, which were adapted from existing instruments from the Islamic Accounting literature (Maali et al., 2006; Haniffa & Hudaib, 2007; Vinnicombe, 2010). ESG Disclosure Quality was examined as a second order construct of environmental, social and governance disclosure sub dimensions, based on the adapted validated ESG disclosure instruments (Clarkson et al., 2008; Elfeky, 2017). Sustainable Development Performance was measured as a second order construct consisting of the following variables: economic sustainability, social impact, environmental efficiency and SDG alignment, which were adapted from the literature used in previous studies (Rosati & Faria, 2019; Schaltegger & Wagner, 2006). Shariah Governance was operationalized by using an existing index of SSB's characteristics that reflected the number of board members, cross membership, and board scholars' qualification (Nomran et al., 2018; Grassa, 2015). All items were translated, back-translated if necessary and content-validation was obtained from a panel of academic and practitioner experts before pilot testing.

4.4 Common Method Bias and Data Quality

To reduce common-method bias, several ex ante and ex post measures were implemented, such as psychological separation of predictor and criterion items in the questionnaire, strict promise of respondent anonymity and reverse worded attention-check items (Podsakoff et al., 2012). Following the recommended PLS-SEM diagnostics (Kock, 2015), Harman's single factor test and a complete collinearity test using VIFs were performed to determine the statistical level of common method variance.

4.5 Analytical Strategy

Using the software SmartPLS 4, the hypothetical model was estimated by means of Partial Least Squares Structural Equation Modeling (PLS-SEM), which, due to its suitability for complex, higher order and moderated-mediation models including both reflective and formative indicators (Hair et al., 2019; Ringle et al., 2015), was chosen for this study. As part of the study, the measurement model was tested for internal consistency reliability, convergent validity and discriminant validity (based on the HTMT-comparison). Path coefficients, coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2) and bootstrapped significance testing (5,000 resamples) were used to evaluate the structural model. The following test methods were used: variance accounted for (VAF) approach for mediation and two-stage approach as suggested by Henseler & Chin (2010) for moderation. To account for potential endogeneity and possible reverse causation between Islamic accounting practice and sustainability outcomes over time, System Generalized Method of Moments (GMM) estimation was used (Blundell & Bond, 1998; Roodman, 2009) as a robustness check on the subsample of firms that can provide the necessary archival panel data.

4.6 Ethical Considerations

Before collecting the data, the study received institutional ethical approval. Data was collected through voluntary participation; informed consent was obtained from all the respondents; and the firm-level and respondent-level identifying information was anonymous during the data processing and reporting, which is consistent with standard ethical practice in organizational survey research (Podsakoff et al., 2012).

5. Data Analysis and Results

5.1 Descriptive Statistics and Common Method Bias

Based on descriptive analysis, the mean scores of Islamic accounting practice (IAP), ESG disclosure quality (EDQ), shariah governance (SG), and sustainable development performance (SDP), indicated that the value was moderate to high with standard deviations indicating meaningful cross-firm variation that is appropriate for structural analysis. The results of Harman's single-factor test showed that one factor could not explain most of the variance of the data and the values of all inner and outer variance inflation factors were

below the conservative cutoff of 3.3, suggesting that common method bias did not significantly affect the results (Kock, 2015).

5.2 Measurement Model Assessment

Reflective first-order constructs achieved internal consistency reliability thresholds (Cronbach's alpha and CR > .70) and thresholds for convergence (AVE > .50) (Hair et al., 2019) as summarized in Table 2. The Heterotrait-Monotrait ratio of correlations (HTMT) showed that the constructs were empirically distinct with all pairs of constructs below the conservative threshold of .85 (Henseler et al., 2015). We examined the formative indicators in the higher-order constructs for collinearity and indicator weights, and found all outer VIF values within the acceptable range, while all indicator weights are statistically significant, demonstrating the validity of the second-order formative structures for Islamic Accounting Practices, ESG Disclosure Quality, and Sustainable Development Performance.

Construct	Cronbach's Alpha	Composite Reliability	AVE
Islamic Accounting Practices	.887	.912	.662
ESG Disclosure Quality	.861	.899	.641
Shariah Governance	.843	.887	.615
Sustainable Development Performance	.872	.905	.653

5.3 Structural Model and Hypothesis Testing

In this section, we develop an algebraic model of a structure and test the model to determine whether it supports the hypothesis. The endogenous constructs in the structural model accounted for considerable portions of variance in the constructs, with ESG disclosure quality model .512 and sustainable development performance model .486 of variance, which are above the moderate to substantial variance threshold of .40.05 explained by an exogenous construct in behavioral research and organizational studies (Hair et al., 2019; Cohen, 1988). The blindfolding procedure resulted in positive Q^2 values for both of the endogenous constructs, indicating out-of-sample predictive ability. Table 3 presents the path coefficients, t-values and significance levels of each hypothesized

relationship. H1 was supported; the disclosure quality of ESG was positively affected by Islamic accounting practices ($b = 0.512$, $p \text{ value} < 0.001$). The results revealed that the quality of ESG disclosure has a significantly positive impact on sustainable development performance ($\beta = .398$, $p < .001$), justifying H2. There was also a significant direct effect of Islamic accounting practices on sustainable development performance ($\beta = .287$, $p < .001$), in favor of H3. The results overall show that Islamic accounting practices have a significant impact on ESG disclosure quality, ESG disclosure quality has a positive impact on sustainable development performance, and Islamic accounting practices have a direct impact on sustainable development performance.

Path	β	t-value	p-value	Decision
H1: Islamic Accounting $\rightarrow$ ESG Disclosure	.512	9.84	< .001	Supported
H2: ESG Disclosure $\rightarrow$ SD Performance	.398	7.62	< .001	Supported
H3: Islamic Accounting $\rightarrow$ SD Performance	.287	5.41	< .001	Supported
H5: Shariah Governance $\times$ Islamic Accounting $\rightarrow$ ESG Disclosure	.164	3.28	.001	Supported

5.4 Mediation Analysis

The indirect path effect of Islamic accounting practice on the sustainable development performance (indirect $\beta = .204$, $p < .001$, 95% bootstrapped confidence interval not including zero) was statistically significant. The above results show that the direct effect of Islamic accounting practices on sustainable development performance (H3) is still significant alongside this indirect effect, meaning the variance accounted for (VAF) is about 41.5% so that the mediation relationship is still partial which supports H4. This trend indicates that Islamic accounting practices can improve the performance of sustainable development not only from the disclosure aspect but also from the aspect of operant and normative aspects in accordance with the view of Maqasid al-Shariah.

5.5 Moderation Analysis

The result showed that the interaction of Shariah governance and Islamic accounting practices had a significant positive effect on the quality of ESG disclosure ($\beta = .164$, $p = .001$) and supported H5. A simple slope analysis along with the corresponding simple slope

interaction graph showed that the slope of the relationship between Islamic accounting practice and ESG disclosure quality at high levels of Shariah governance was much steeper than the slope of the relationship at low levels of Shariah governance, confirming that the effect of Islamic accounting practice on disclosure quality is stronger rather than substitute when Shariah governance is robust. This result is in line with the theoretical existence of Shariah Supervisory Boards according to the theory of Legitimacy (Grassa, 2015; Farag et al., 2018).

5.6 Robustness Check: System GMM Estimation

Given the potential endogeneity due to reverse causation and/or omitted time-invariant firm attributes, a System GMM estimation was performed using the matched panel subsample (Blundell & Bond, 1998; Roodman, 2009). We found no evidence of second order serial correlation using Arellano-Bond test and the Hansen test on over-identifying restrictions did not reject the validity of the instruments, which suggests a strong model specification. The results of the System GMM coefficients for both ESG disclosure quality and sustainable development performance supported the cross-sectional PLS-SEM results, and strengthened the level of confidence in the direction of causality of the hypothesized model.

6. Discussion

The results of this research give empirical evidence for an integrated and theory-based view of the role played by Islamic accounting practices in sustainable development via the quality of ESG disclosure as a function of the quality of Shariah governance. The results support H1 showing that the Islamic accounting practices positively affect the ESG disclosure quality which is in line with the Stakeholder Theory as Islamic accounting is also present with the obligation of accountability, and the accountability-based disclosure in particular such as Islamic accounting through Zakat and Shariah-based disclosure can be considered as the informational contents that are significantly overlapping and strengthen the social and governance aspects of ESG disclosure (Haniffa&Hudaib, 2007; Kamla, 2009). This finding is consistent with the findings of Platonova et al. (2018) and Alsaadi (2021) which found association between the Islamic governance characteristics and CSR disclosure and this study brings the findings to ESG disclosure across the globe, not only to

CSR disclosure. The results support the positive relationship between the quality of ESG disclosure and sustainable development performance (H2) and expand on a long stream of conventional ESG research (Ioannou & Serafeim, 2015; Cheng et al., 2014) in the Islamic finance context where the disclosure-performance relationship has been under researched. H3 and H4 results suggest that Islamic accounting's effect on sustainable development's performance is not only around the disclosure produced but also directly around the operation with regard to welfare and harm prevention (Chapra, 2008; Mohammed & Muhammed, 2017). The finding was twofold, which can be viewed as addressing the lack of empirical demonstration of the substantive (as opposed to rhetorical) role of the Maqasid al-Shariah in sustainability results as called for by Dusuki and Bouheraoua (2011). The moderating role of Shariah governance (H5) undoubtedly is the most novel contribution of this study because it proves that the strength of Shariah Supervisory Board oversight is not a mere formality but it serves as an empirical amplifier of the accounting-disclosure relationship, consistent with the emphasis of Legitimacy Theory regarding the legitimacy that is created by the presence of an independent supervisory body (Suchman, 1995; Grassa, 2015). The results are in line with and build on the results of Nomran and Haron (2020) and Farag et al. (2018) related to SSB characteristics and disclosure quality but it is done in the context of an ESG-integration framework instead of a narrower Shariah-compliance framework. Overall, the findings indicate that Islamic accounting, ESG disclosure and performance of SD can be viewed as a holistic mechanism and the integration of the three will be more effective in a system that is coherent and complementary to each other, and the effectiveness of the mechanism requires the robustness of the underlying Shariah governance system.

7. Implications

This study offers empirical evidence that if Islamic accounting is combined with ESG practices and backed with robust shariah governance, it can help improve the SD outcomes a lot. This evidence has varying implications for four stakeholder groups.

7.1 Theoretical Implications

The study has three main theoretical contributions. First, it makes an effort to combine Islamic accounting constructs with the widely adopted ESG disclosure frameworks,

offering a scientifically validated connection between the two literatures, which has largely been developed independently of each other. Second, it brings Maqasid al-Shariah to the empirical sustainability-accounting literature as a substantive explanation other than a purely symbolic or normative conceptualization as called for in the literature (Dusuki & Bouheraoua, 2011; Mohammed & Muhammed, 2017). Third, it offers a mixed methodology (primary survey data, archival disclosure data, PLS-SEM, and System GMM) for measuring and analyzing faith-based accounting and sustainability which proposes a template for future empirical research.

7.2 Implications for Policymakers

The findings can help in developing standardised Islamic ESG reporting guidelines, and in formally aligning AAOIFI governance and disclosure standards with international ESG taxonomies like GRI and SASB, for policymakers and standard-setters. The validated framework could serve as evidence for regulators of OIC member jurisdictions to set the minimum disclosure standards (MSDs) in Islamic-ESG for listed companies in their jurisdiction to minimize the disclosure gap or heterogeneity and maximize the cross-border comparability for international investors (Islamic Financial Services Board, 2023).

7.3 Implications for Islamic Financial Institutions

The findings suggest that a more extensive embedding of the Islamic accounting underpinning of ESG reporting may lead to higher disclosure quality, better observable sustainability outcomes, and will therefore have positive implications on the trust of stakeholders as well as on the reputational capital and the ability to access ESG-linked capital markets for Islamic financial institutions. Acknowledging the importance of implementing transparency and ethical reporting for Zakat, institutions should not view Shariah compliance reporting and environmental, social and governance (ESG) reporting as parallel streams of reporting.

7.4 Implications for Shariah Supervisory Boards

In case of Shariah boards, the critical role of the Shariah governance in a significant moderating effect indicates an urgent need to improve the capacity of Shariah oversight through increasing the board members, coordinating the board with other institutions, and

improving the board's qualification for Sharia so that the existing convergence of the Islamic accounting practice with the objectives of Maqasid al-Shariah can be considered substantive and not merely symbolic. Shariah boards are encouraged to elaborate review procedures for ESG-related disclosures as a part of the existing review procedures for compliance with sharia principles.

7.5 Implications for Investors

The results indicate that, for socially responsible and Islamic finance investors, such quality of Islamic accounting and ESG disclosures could potentially be a useful proxy for long-term firm value and sustainability, and this could be an alternative method to conventional ESG ratings which may fail to effectively capture the Islamic governance mechanisms as well. The integration of Shariah governance strength as an explicit screening criterion in addition to conventional ESG scores could be beneficial for investors who want to invest in Shariah-compliant sustainable assets

8. Limitations and Future Research

This study has a number of limitations that indicate areas for future research. Second, although the archival validation subsample was used and common method bias diagnostics applied, some perceptual bias cannot fully be excluded because the measures are self-reported; future research may include a wider subsample of archival data across a broader sample of firms. Second, the cross-sectional nature of the underlying survey data used precludes more definitive causal statements (though the System GMM robustness check helps mitigate this concern); future panel or experimental designs could provide stronger causal identification. Thirdly, the sampling frame of this study, limited to OIC countries, may have limited the generalisability of the results to other countries, such as those with minority Muslim populations, where the direction and magnitude of the relationships to those postulated in this study might differ due to differences in regulatory and cultural conditions. Fourth, it models Shariah governance as a single moderating variable, but further research might disaggregate individual dimensions of SSB governance to determine which dimensions of Shariah governance most strongly strengthen the accounting-disclosure association. Lastly, other factors like firm size, listing status, and national ESG regulatory stringency could be studied as other moderators for the proposed framework.

9. Conclusion

The purpose of this study was to analyze how and under which governance conditions Islamic accounting practices affect the performances in sustainable development and disclosure quality in Shariah-compliant firms. The result of this test suggests that Islamic accounting practices have positive and significant effect on ESG Disclosure quality, ESG Disclosure quality has positive and significant effect to sustainable development performance, ESG Disclosure quality can mediate between Islamic accounting practices to sustainable development performance and Shariah governance has positive and significant enhancement effect on the relationship between Islamic accounting practices and ESG Disclosure quality through Moderated-Mediated approach used by this study, tested by PLS-SEM with System GMM robust test. The results of this study contribute to strong empirical evidence that Islamic accounting which is blended with ESG practices could play a strong supporting role in enhancing ethical transparency and achieving sustainable development outcomes when supported by strong Shariah governance. It provides a robust and theory-based framework that was validated by the experts for harmonizing the faith-based accounting principles and the world sustainability agenda which is actionable for policy-makers, Islamic financial institutions, Shariah supervisory boards and investors.

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