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DOING WELL BY DOING GOOD: THE NEXUS BETWEEN ENVIRONMENTAL COMMITMENT AND ISLAMIC BANKING STABILITY

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Abstract

Purpose — This paper aims to investigate the impact of environmental commitment on Islamic banking stability. **Design/Methodology/Approach** — The study sample consists of 32 Islamic banks across 12 countries, covering data from 2016 to 2023. Panel data estimation is employed in this study, specifically using fixed effect (FE) regression and two-stage least squares (2SLS). **Findings** — The findings indicate that Islamic banks demonstrating a strong commitment to environmental practices tend to exhibit greater financial stability. Furthermore, this positive relationship is more pronounced in countries with higher levels of institutional quality, where such commitment is associated with enhanced financial resilience. However, during the COVID-19 pandemic, Islamic banks that engaged in environmental initiatives experienced increased financial vulnerability, suggesting context-specific limitations to the stabilising effect of environmental commitment. **Originality/Value** — The study extends prior empirical works on the influence of environmental

commitment on Islamic banking stability. It also offers a more nuanced analysis by exploring the effects of specific indicators of environmental commitment and the contextual conditions under which these practices influence financial stability—areas that have been largely overlooked in previous studies. Research Limitations/Implications — The study is limited in the number of observations, specifically the issue of data availability for environmental performance in Islamic banks. Practical Implications — Based on the findings, the study suggests that Islamic banks need to incorporate environmental commitment in their operations, considering their positive impact on banking stability. Regulatory institutions should mandate Islamic banks to adopt and gradually implement a structured approach towards strengthening their commitment to environmental practices. © Faaza Fakhrunnas, MB. Hendrie Anto, and Razali Haron. Published in the International Journal of Islamic Finance and Sustainable Development by ISRA Institute, INCEIF University.

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