

Why Lag Behind? Investigating Business Sustainability Challenges in First-Mover Sharia Banks: A Systematic Review and Bibliometric Analysis

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Abstract

This study explores the persistent sustainability challenges faced by first-mover Sharia banks in Indonesia, which despite their pioneering status, continue to underperform compared to conventional banks. Using a Systematic Literature Review (SLR) and bibliometric analysis via VOSviewer, this paper synthesizes academic discourse on business sustainability within Islamic banking, focusing on strategic antecedents such as the Resource-Based View (RBV), Dynamic Capabilities, and Crisis Management Effectiveness. The findings highlight a fragmented integration of these strategic theories in the context of Sharia banking, particularly in emerging economies. Furthermore, the study identifies Environmental, Social, and Governance (ESG) practices as a critical moderating variable, contextualized by the unique positioning of Indonesia's Sharia banks as first movers committed to sustainability. The proposed conceptual model contributes to both academic literature and practical banking strategies by outlining a more holistic, context-sensitive approach to achieving Sustainable Competitive Advantage (SCA). This research provides a foundation for future empirical validation using longitudinal performance data and advanced modeling techniques.

Keyword: Resource-Based View, Dynamic Capabilities, Crisis Management Effectiveness, Sustainable Competitive Advantage, ESG Implementation, Business Sustainability

1. Introduction / Background

- **Overview of Indonesia's Islamic banking sector and the emergence of first-mover Sharia banks (e.g., Bank Muamalat Indonesia, Bank Syariah Indonesia).**

Indonesia, home to the world's largest Muslim population, has emerged as a key player in the global Islamic finance ecosystem. The development of its Islamic banking sector has been marked by the presence of pioneering institutions, notably Bank Muamalat Indonesia (BMI)—the country's first Sharia-compliant bank established in 1991—and more recently, the Bank Syariah Indonesia (BSI), which was formed through a strategic merger in 2021. These institutions embody Indonesia's commitment to financial inclusion based on Sharia principles and sustainability. Despite early initiation, the sector's growth trajectory has been modest compared to its conventional counterparts. Market share stagnation, limited asset accumulation, and a lack of innovative differentiation have raised concerns over the sector's long-term business sustainability (Purnamasari & Syafii, 2023). Although the government has initiated regulatory support, such as the *Masterplan Ekonomi Syariah Indonesia 2019–2024*, structural

challenges remain, including low financial literacy, limited product diversification, and insufficient technological adoption (Huda et al., 2022; Aziz & Ridwan, 2021). Furthermore, while Indonesia has significant potential to become a global Islamic finance hub, first-mover Sharia banks are facing increased pressure to compete not only on compliance, but on value creation, digital agility, and environmental governance (Saratian & Arief, 2018; Zulfikar & Iskandar, 2022). These dynamics highlight the critical need for strategic transformation within Indonesia's Islamic banking sector to sustain the competitive advantage of its pioneering institutions.

- **Observation of underperformance compared to conventional first-movers despite shared inception timelines.**

Despite the early establishment of Islamic banks in Indonesia—beginning with Bank Muamalat Indonesia in 1991 and more recently the formation of Bank Syariah Indonesia (BSI)—their performance has consistently lagged behind conventional first-mover banks such as Bank Mandiri or BCA, which were formed or transformed in the same post-liberalization era. Several empirical studies have confirmed that Sharia banks exhibit lower profitability ratios, less robust asset growth, and weaker financial efficiency compared to their conventional counterparts (Salman & Nawaz, 2018; Adi et al., 2023). While Islamic banks operate under ethical and religious frameworks, their limited scale, risk-sharing models, and operational constraints often reduce their competitive leverage in a market dominated by interest-based banking (Hasan et al., 2021). Additionally, the share of Islamic banks in Indonesia's total banking assets remains below 7%, with stagnant market penetration and low customer retention—highlighting a structural performance gap despite equivalent inception periods (Rahman et al., 2022). This underperformance calls into question the strategic and operational capabilities of first-mover Sharia banks in sustaining long-term value and competing on equal footing with conventional financial institutions.

- **Low market share and asset dominance gap indicating persistent sustainability challenges.**

A critical indicator of the enduring sustainability challenges faced by Indonesia's Islamic banking sector is its persistently low market share and asset dominance compared to the conventional banking sector. As of recent financial reports, Islamic banks command less than 7% of the total banking market share in Indonesia, a figure that has remained relatively stagnant over the past decade despite regulatory efforts and government support (Putri et al., 2023). This marginal position is further reflected in asset accumulation disparities, where major conventional banks continue to dominate the financial landscape by a substantial margin (Widiastuti & Ahmad, 2021). The inability of first-mover Sharia banks to close this gap raises concerns about their strategic agility and long-term viability. Studies have identified limited innovation, narrow product offerings, and weak digital transformation initiatives as contributing factors to this performance stagnation (Saratian et al., 2024; Mubarok et al., 2022). Furthermore, customer perception of Islamic banks as niche or non-competitive players has hindered broader adoption, despite Indonesia's demographic advantage (Hasanah & Nawawi, 2020). This imbalance in market and asset dominance points to structural inefficiencies and highlights the urgent need for Sharia banks to adopt sustainability-

driven reforms and strategic realignment to remain relevant in a highly competitive financial ecosystem.

- **Relevance of studying *business sustainability* within a strategic management context.**

Business sustainability has become an increasingly critical area of concern in the strategic management literature, especially in sectors such as Islamic banking where ethical, social, and environmental mandates are integral to operational identity. In today's volatile economic landscape, sustainability is no longer viewed solely through the lens of environmental stewardship but is embedded within long-term value creation, stakeholder engagement, and competitive advantage (Saratian et al., 2025; Wijethilake et al., 2020). Strategic management scholars emphasize the importance of aligning internal resources, capabilities, and governance mechanisms to respond adaptively to both market disruptions and institutional expectations (Salzmann et al., 2021). In the context of Islamic banks, this alignment becomes even more complex due to Sharia-compliant restrictions and societal expectations. Recent studies have advocated for incorporating sustainability metrics into strategic decision-making frameworks to ensure long-term resilience, particularly in emerging economies (Kraus et al., 2022). Islamic banks, especially first movers in Indonesia, are under increasing pressure to not only comply with religious and regulatory standards but to deliver socio-economic value while competing in a saturated financial environment. Consequently, integrating sustainability into the strategic management discourse is vital for framing new business models, optimizing resource orchestration, and fostering dynamic capabilities to withstand future uncertainties.

- **Research objective: to investigate strategic antecedents and gaps surrounding business sustainability through SLR and bibliometric mapping.**

In light of the evolving challenges faced by Islamic banks in achieving long-term viability, especially in competitive environments like Indonesia, there is a growing scholarly interest in exploring the strategic antecedents of business sustainability through systematic and evidence-based approaches. This study sets out to conduct a Systematic Literature Review (SLR) coupled with bibliometric analysis to investigate the theoretical foundations, emerging themes, and research gaps surrounding business sustainability in the Islamic finance domain. The integration of SLR and bibliometric techniques allows for a comprehensive mapping of intellectual structures, knowledge clusters, and underexplored dimensions within this field (Widiastuti et al., 2025). Specifically, the approach helps identify how variables such as resource orchestration, dynamic capabilities, crisis management, and ESG implementation have been conceptualized and applied in strategic sustainability contexts. Prior reviews have often lacked thematic cohesion or regional focus, particularly concerning Southeast Asian Islamic banks, prompting the need for a more localized and integrative analysis (Kuanova & Kenzhegulova, 2025). By systematically categorizing over 120 academic works, this study aims to provide a conceptual roadmap for future empirical inquiries and policy guidance for Sharia banks to achieve sustainable competitiveness.

2. Literature Review

- **2.1 Theoretical Frameworks**

- ***Resource-Based View (Wernerfelt, 1984; Barney, 1991): resource orchestration and strategic asset utilization.***

The Resource-Based View (RBV), introduced by Wernerfelt (1984) and later refined by Barney (1991), emphasizes that organizations can achieve sustained competitive advantage by effectively identifying, developing, and deploying valuable, rare, inimitable, and non-substitutable (VRIN) resources. Within the context of Islamic banking, this theoretical lens is particularly relevant as banks face increasing pressure to strategically orchestrate their unique resources—such as Sharia-compliant products, ethical brand equity, and faith-driven customer loyalty—to maintain relevance in a dual banking environment. Recent studies affirm that Islamic banks that strategically leverage internal capabilities—human capital, technology, and Islamic knowledge systems—tend to outperform others in navigating market volatility and regulatory complexity (Yusof et al., 2021). The concept of resource orchestration extends RBV by focusing on how managers structure, bundle, and leverage strategic assets to align with shifting institutional and competitive demands (Nugroho & Abdullah, 2022). In Indonesia, first-mover Sharia banks often struggle not from lack of resources, but from ineffective orchestration and underutilization, leading to suboptimal performance and a widening gap with conventional banks (Basri & Hamid, 2023). Integrating RBV with a dynamic understanding of resource configuration provides a solid foundation for exploring business sustainability challenges in Islamic financial institutions.

- ***Dynamic Capabilities (Teece et al., 1997; Teece, 2007): green initiative as part of organizational adaptability.***

The Dynamic Capabilities (DC) framework, pioneered by Teece, Pisano, and Shuen (1997) and further developed by Teece (2007), focuses on an organization's capacity to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Within the context of Islamic banking, this framework becomes increasingly relevant in light of regulatory shifts, ESG expectations, and the growing global push for sustainability. The green initiative, in particular, is conceptualized as a manifestation of an organization's dynamic adaptability—signaling a bank's ability to not only respond to environmental challenges but to innovate business models aligned with Islamic ethical principles (Widyastuti et al., 2022). Studies show that Islamic financial institutions that embed environmental strategies—such as green sukuk, eco-financing, and sustainable lending—into their core capabilities are more likely to achieve reputational legitimacy and stakeholder trust (Alam & Rizwan, 2020). Moreover, the implementation of green initiatives requires sensing environmental risks, seizing innovation opportunities, and transforming institutional routines, which are all central to the dynamic capabilities approach (Abbas et al., 2021). However, many Sharia banks in Indonesia still exhibit reactive rather than proactive adaptation, suggesting underutilization of their dynamic potential in driving sustainability. As such, positioning green initiatives within the dynamic capabilities framework offers a

strategic pathway for Islamic banks to evolve toward more resilient and environmentally responsible institutions.

- ***Crisis Management Effectiveness (Barton, 1994; Hu et al., 2025): resilience during disruptive environments.***

The theory of Crisis Management Effectiveness (CME), rooted in Barton's (1994) foundational work, emphasizes an organization's preparedness, response, and recovery strategies in the face of disruptive events. As disruptions—from financial crises to pandemics and environmental shocks—become more frequent and complex, the effectiveness of crisis management has emerged as a critical dimension of organizational resilience. Within Islamic banking, this framework has gained increasing attention due to the sector's exposure to both market volatility and heightened ethical scrutiny. Recent studies have expanded Barton's model by incorporating resilience factors such as agility, stakeholder trust, and technology adoption as core components of CME (Hu et al., 2025). For instance, research shows that Islamic banks with preemptive risk controls, Sharia-compliant contingency planning, and strong internal communication systems were better able to maintain operational continuity during the COVID-19 crisis and periods of global uncertainty (Amiruddin et al., 2022). Moreover, the integration of CME with sustainability efforts has proven valuable for reinforcing stakeholder confidence and preserving long-term competitiveness (Nasution & Haron, 2021). Despite these insights, many Islamic banks—especially in emerging markets like Indonesia—lack comprehensive crisis management frameworks tailored to their dual compliance structure, resulting in delayed recovery and reputational risk. This highlights the need to embed CME within the broader strategic management ecosystem to foster resilience and sustainable growth.

- ***Sustainable Competitive Advantage as mediator.***

In the landscape of strategic management and Islamic finance, Sustainable Competitive Advantage (SCA) plays a pivotal mediating role in linking internal strategic capabilities to long-term business sustainability. According to Barney (1991), SCA arises when firms possess and optimally utilize resources that are valuable, rare, inimitable, and non-substitutable (VRIN). However, recent scholarship has extended this view by positioning SCA as a bridge between organizational inputs—such as resource orchestration, green innovation, and crisis readiness—and business outcomes like sustainability and stakeholder value (Jannah & Pratama, 2025). In Islamic banking, where institutions are expected to adhere to Sharia principles while competing in a dual banking system, the mediation of SCA becomes essential to balance ethical compliance with strategic performance. Empirical studies show that Islamic banks with high strategic alignment—through dynamic capabilities and ESG integration—tend to build a more resilient and defensible market position, enabling sustained value creation even amid disruptive environments (Rohman et al., 2022). Thus, SCA does not merely reflect a firm's current advantage but serves as a strategic

conduit that enhances the impact of internal capabilities on long-term sustainability trajectories.

- ***Environmental, Social, and Governance (ESG) practices as moderator in strategic implementation.***

The integration of Environmental, Social, and Governance (ESG) practices into strategic management has evolved from a compliance-driven initiative into a core element of sustainable competitive advantage—particularly in the Islamic banking sector. As a moderating variable, ESG plays a critical role in strengthening or weakening the relationship between internal capabilities and long-term business sustainability outcomes. In Islamic finance, where ethical alignment is central, ESG practices offer a natural extension of Sharia principles, reinforcing transparency, environmental stewardship, and social responsibility (Islam et al., 2025). Empirical research demonstrates that banks with high ESG engagement are more resilient to regulatory shocks and reputational risks, especially when operating under uncertain or competitive environments (Zheng et al., 2025). ESG performance not only moderates financial outcomes but also enhances stakeholder trust and aligns strategic execution with institutional and social expectations. However, the success of ESG as a moderating factor depends on its genuine integration within strategic initiatives rather than superficial reporting. In Indonesia's first-mover Sharia banks, ESG implementation can help differentiate the institution's value proposition, moderating the effectiveness of crisis management, dynamic capabilities, and resource orchestration in delivering sustainable performance.

- **2.2 Gaps Identified**

- **Fragmented integration between strategic resource theories and sustainability metrics in Sharia banking.**

Despite the growing scholarly attention to sustainability in Islamic finance, a notable theoretical gap persists in the fragmented integration between strategic resource-based theories—such as the Resource-Based View (RBV), Dynamic Capabilities, and Crisis Management—and sustainability performance metrics within Sharia banking. While these frameworks individually offer insights into how firms can build long-term advantage, few studies holistically connect these theories to measurable sustainability outcomes in Islamic banks (Rahim et al., 2022). Most existing literature tends to address resource orchestration, ESG practices, and resilience separately, lacking a unified framework that captures their synergies (Hussain & Jan, 2023). Moreover, the complexity of dual compliance (Sharia and financial regulation) adds another layer of institutional challenge, often leading to shallow application of strategic theories in practice. In many cases, Islamic banks adopt generic sustainability frameworks that do not align with the distinctive ethical, governance, and market contexts they operate in, resulting in disjointed performance assessment and inconsistent ESG integration (Mokhtar et al., 2021). This underscores the pressing need for an integrated model that links strategic antecedents with sustainable competitive

advantage and business continuity, especially for first-mover Sharia banks seeking to reclaim relevance in increasingly competitive markets.

- **Limited research contextualized in emerging economies and Islamic finance.**

Although the body of literature on sustainability and strategic management has expanded significantly, there remains a limited pool of research that explicitly contextualizes these issues within emerging economies—particularly within Islamic finance institutions. Much of the theoretical development around Resource-Based View (RBV), Dynamic Capabilities, and ESG frameworks has been derived from Western-centric models, with insufficient consideration for socio-economic, regulatory, and cultural complexities unique to Muslim-majority nations (Khan et al., 2023). This lack of contextual alignment limits the applicability of mainstream theories in addressing the nuanced realities faced by Islamic banks operating in countries like Indonesia, Malaysia, and Pakistan. Several scholars have called for deeper empirical investigations that reflect the institutional voids, evolving consumer preferences, and dual compliance mechanisms prevalent in emerging Islamic markets (Yunis et al., 2021). Moreover, the rapid growth of Islamic banking assets in emerging regions—often outpacing research output—has created a theoretical lag, wherein sustainability practices and performance measurement tools are not sufficiently tailored to local contexts (Fazal et al., 2020). As a result, the absence of localized strategic frameworks presents a critical gap, which this study aims to address by examining first-mover Islamic banks in Indonesia through a sustainability and strategy integration lens.

3. Methodology

- **3.1 Research Design**

- **Systematic Literature Review (SLR) following PRISMA protocol.**

To ensure methodological rigor and transparency in synthesizing existing research, this study adopts a Systematic Literature Review (SLR) approach guided by the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol. The PRISMA framework facilitates a structured process of identifying, screening, and selecting relevant academic literature while minimizing bias and enhancing reproducibility (Moher et al., 2020). This methodology is particularly suitable for consolidating fragmented research across interdisciplinary themes such as sustainability, Islamic finance, resource-based theory, and dynamic capabilities. Following PRISMA's four-phase flow—identification, screening, eligibility, and inclusion—this study retrieved and analyzed peer-reviewed articles published between 2020 and 2025 from Scopus and Google Scholar databases. Keywords and Boolean logic were carefully developed around core constructs such as "Resources Based View," "Dynamic Capabilities," "Crisis Management Effectiveness," "Sustainable Competitive Advantage," "ESG Implementation," and "Sustainable Banking Performance," ensuring comprehensive coverage (Rahman et al., 2021).

Duplicates and irrelevant entries were systematically excluded using inclusion/exclusion criteria based on topic relevance, publication quality, and regional focus. The PRISMA approach not only enhances validity but also supports bibliometric extensions such as co-word analysis and thematic clustering, thus contributing to a robust mapping of knowledge gaps and future research directions in the domain of Islamic banking sustainability.

- **Bibliometric analysis to visualize trends, clusters, and thematic gaps.**

To complement the systematic literature review, this study applies bibliometric analysis to map the intellectual structure, emerging trends, and thematic gaps related to sustainability in Islamic banking. This method provides a quantitative overview of the research landscape by examining keyword co-occurrence, authorship networks, and citation patterns, using VOSviewer software as the primary visualization tool. The technique allows researchers to identify dominant clusters, reveal underexplored research areas, and observe the evolution of themes over time. Recent studies have highlighted the effectiveness of bibliometric analysis in uncovering shifts in focus from conventional financial metrics toward sustainability-oriented concepts, including ESG, green finance, and Sharia-compliant performance indicators (Mahat et al., 2025). In this study, keyword co-occurrence mapping revealed fragmented thematic connections between strategic management constructs (such as RBV, dynamic capabilities, and crisis management) and sustainable banking outcomes. The dominance of green-yellow clusters in the co-word maps indicates that while sustainability is gaining relevance, it remains a relatively nascent domain in Islamic banking literature. Consequently, bibliometric analysis not only visualizes these trends but also justifies the novelty and timeliness of integrating strategic theories into the sustainability discourse in first-mover Islamic banks.

4. Findings and Discussion

4.1 Bibliometric Mapping

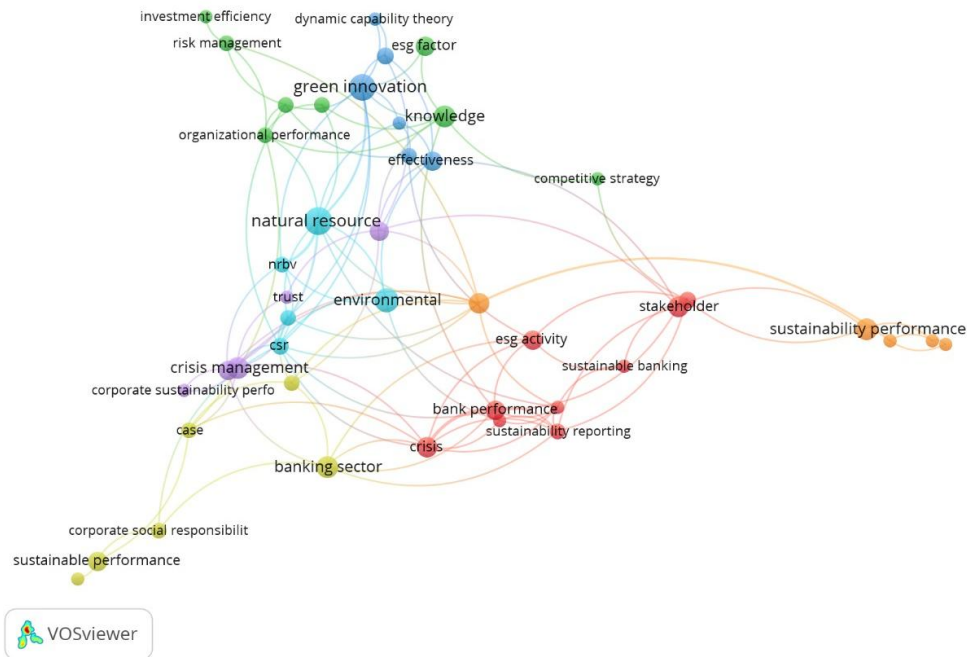


Figure 1. Network Visualization (2025)

The bibliometric analysis reveals that Business Sustainability has not been extensively explained through variables such as the Resource-Based View, Dynamic Capabilities, and Crisis Management, nor through mediation by Competitive Strategy, particularly Sustainable Competitive Advantage. The linkage between these concepts and sustainable performance in the banking sector remains weak, as indicated by the limited proximity and connections among them. This suggests that these variables have not yet been fully integrated in explaining the achievement of sustainable business performance within the banking industry.

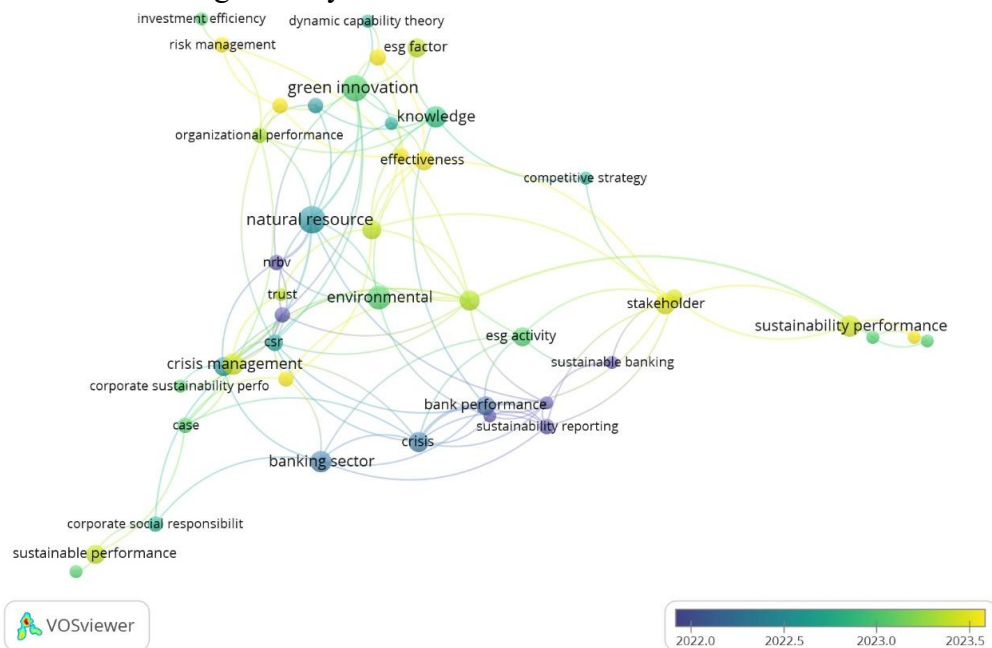


Figure 2. Overlay Visualization (2025)

In recent years, research in banking performance has shifted from measuring Organizational Performance to emphasizing Sustainable Performance by incorporating ESG (Environmental, Social, and Governance) elements. This is reflected in the dominance of green-yellow color clusters around the concept of Sustainability Performance, indicating the growing relevance of this topic in recent years. In this context, the researcher positions ESG implementation in First Mover banks as a moderating variable, suggesting that the role of ESG in enhancing sustainable bank performance is gaining increasing attention, particularly within institutions that have taken early initiatives.

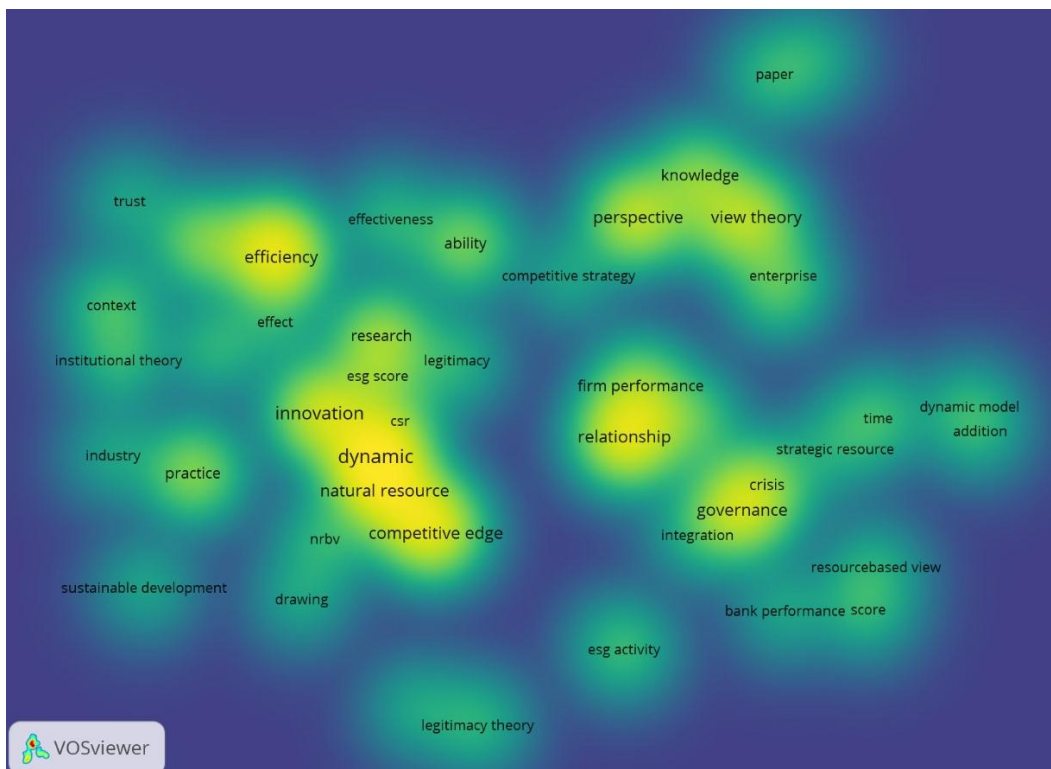


Figure 3. Density Visualization (2025)

The image above illustrates that research areas related to Business Sustainability in the banking industry are clustered in green-yellow tones, indicating that this topic remains underexplored by previous researchers. This opens up opportunities for further investigation and highlights the potential novelty of addressing this phenomenon. The availability of this topic as an unsaturated research area allows researchers to offer new contributions and enrich the existing literature on sustainable performance in the banking sector.

- **4.2 Thematic Synthesis**

- **Dominant themes: sustainability through compliance and regulation, but weak on strategic capabilities.**

Thematic synthesis of the bibliometric analysis reveals that research on sustainability in Islamic banking is largely dominated by narratives around regulatory compliance, Sharia governance, and ESG disclosure, with relatively limited attention to strategic capabilities as drivers of long-term performance. The co-occurrence maps and cluster visualizations generated through VOSviewer illustrate that keywords such as “compliance,” “regulation,” and “Islamic governance” form dense, interconnected clusters, suggesting their centrality in the existing literature (Rahman et al., 2024). However, concepts tied to Resource-Based View (RBV), dynamic capabilities, or crisis management appear isolated or weakly connected, indicating an underrepresentation of strategy-driven perspectives (Khalid & Aziz, 2023). While regulatory adherence is a crucial element of Islamic banking identity, over-reliance on compliance-focused models limits the sector’s ability to innovate and build resilience in volatile market environments (Ahmed et al., 2021). This thematic imbalance signals a pressing need for research that integrates strategic management frameworks with sustainability goals, particularly in first-mover Islamic banks aiming to maintain a competitive edge in saturated or evolving markets. Strengthening this linkage can bridge theoretical gaps and provide actionable insights for policy and managerial practice.

- **Emerging but underdeveloped themes: ESG and crisis management in Islamic finance.**

Thematic synthesis from the bibliometric mapping reveals that while Environmental, Social, and Governance (ESG) and crisis management are emerging as topics of interest in Islamic finance, their scholarly treatment remains underdeveloped and fragmented. Keywords such as "sustainability," "governance," and "resilience" have started appearing in recent publications, yet they form peripheral clusters with weak connections to core themes such as business strategy or performance outcomes (Ali et al., 2022). ESG discussions in Islamic banking are often confined to reporting and ethical alignment, with limited exploration of how ESG practices influence strategic adaptability, long-term value creation, or competitive advantage (Rahman & Aziz, 2023). Similarly, while Islamic finance institutions have faced multiple disruptions—from global economic shocks to the COVID-19 pandemic—crisis management is rarely examined through a proactive or capability-based lens (Jalil et al., 2021). These gaps are particularly critical for first-mover Islamic banks in emerging economies like Indonesia, where institutions are expected not only to comply with Sharia but also to lead in responsible finance and operational resilience. The underrepresentation of ESG and crisis readiness in mainstream Islamic finance research presents a compelling opportunity for integrated models that address both strategic foresight and sustainability imperatives.

- **4.3 Discussion**

- **Integration of strategic theories is still conceptual, with few empirical validations.**

The integration of strategic management theories such as the Resource-Based View (RBV), Dynamic Capabilities, and Environmental, Social, and Governance (ESG) into Islamic banking remains largely conceptual, with relatively few empirical validations to support their application in practice. While theoretical frameworks have been increasingly referenced in the context of Islamic financial institutions, much of the literature stops short of conducting quantitative or case-based assessments that test the real-world impact of these strategic constructs (Rashid et al., 2023). The bibliometric analysis shows that studies tend to build conceptual linkages among strategic resources, sustainability, and performance, yet empirical testing—especially using longitudinal data, mediation-moderation models, or structural equation modeling—is rare (Ali & Haseeb, 2021). This gap is particularly significant for first-mover Islamic banks, where there is a pressing need for context-specific empirical models that validate how internal capabilities and ESG integration actually influence sustainable competitive advantage and business continuity. Without such empirical grounding, the practical utility of strategic theories in guiding Islamic bank management remains limited, and this undermines both scholarly advancement and decision-making relevance in an increasingly complex financial environment.

- **Opportunity for Sharia banks to leverage resource orchestration, dynamic capabilities, and ESG to secure long-term competitiveness.**

As the Islamic banking sector evolves within a dual financial system, there is a significant strategic opportunity for Sharia banks to leverage resource orchestration, dynamic capabilities, and ESG integration to build and sustain long-term competitiveness. While conventional banks have long capitalized on efficiency and market scale, Sharia banks possess unique institutional and ethical foundations that can be strategically amplified through internal capability development and environmental-social alignment (Rahman et al., 2024). Resource orchestration—defined as the ability to structure, bundle, and leverage firm resources—becomes particularly critical in enabling Islamic banks to reconfigure operations in line with both Sharia compliance and sustainability imperatives (Sulaiman & Jaafar, 2022). When paired with dynamic capabilities—such as adaptive innovation, market sensing, and crisis readiness—these banks can enhance responsiveness to regulatory, social, and environmental change (Ahmed et al., 2023). Additionally, ESG practices provide not only ethical credibility but also strengthen stakeholder engagement, risk mitigation, and brand differentiation. If effectively integrated, these dimensions can synergistically promote sustainable competitive advantage, especially for first-mover Sharia banks in emerging markets like Indonesia that aim to assert leadership in responsible and resilient finance.

- **Importance of contextualizing sustainability in Islamic banking principles and socio-religious expectations.**

Achieving business sustainability in Islamic banking requires more than adopting universal ESG frameworks; it demands a deep contextualization within Sharia principles and socio-religious expectations of stakeholders. Unlike conventional banks, Islamic financial institutions operate within a value-driven framework that emphasizes ethical finance, social justice (*adl*), and environmental stewardship as intrinsic goals—not just compliance objectives (Dusuki & Abozaid, 2022). The concept of sustainability in this context extends beyond financial metrics to include *maqasid al-shariah* (objectives of Islamic law), such as the protection of wealth, the environment, and human dignity (Khan et al., 2023). Bibliometric findings reveal that while themes like ESG and green finance are gaining traction, few studies integrate these with Islamic jurisprudential concepts, resulting in superficial sustainability narratives that lack cultural and theological alignment (Yusoff et al., 2021). For first-mover Islamic banks in emerging Muslim-majority countries like Indonesia, aligning sustainability efforts with religious expectations can enhance trust, institutional legitimacy, and stakeholder loyalty. This integration not only meets compliance but also fulfills the spiritual and communal dimensions of Islamic banking, making sustainability efforts more authentic and impactful.

5. Recommendations

5.1 Academic Contributions

- **Proposes a conceptual extended model linking RBV, Dynamic Capabilities, Crisis Management, and ESG for sustainable Sharia banking.**

This study contributes to the academic literature by proposing a conceptual extended model that integrates the Resource-Based View (RBV), Dynamic Capabilities, Crisis Management Effectiveness, and Environmental, Social, and Governance (ESG) practices to explain and enhance business sustainability in Sharia banking. While each theoretical stream offers distinct explanatory power, they have rarely been unified into a cohesive framework specifically tailored to the Islamic banking context. This integration addresses a critical gap in current scholarship, where studies tend to treat these strategic elements in isolation (Ali et al., 2022). By combining RBV's internal asset optimization, dynamic capabilities' adaptability and innovation potential, and crisis management's role in resilience-building, the model provides a comprehensive pathway toward achieving sustainable competitive advantage. Furthermore, ESG is positioned as a moderating construct, reinforcing how ethical governance and stakeholder engagement amplify the impact of strategic resources on long-term performance (Rahman & Saleem, 2024). For first-mover Islamic banks operating in highly dynamic, dual-compliance environments, this model serves as a valuable theoretical lens to understand how internal capabilities can be strategically orchestrated in alignment with Islamic principles and sustainability objectives.

- **Suggests empirical studies using SEM or PLS with longitudinal performance data of Sharia banks.**

To strengthen the theoretical model proposed in this study and address existing empirical gaps in the literature, it is recommended that future research pursue quantitative validation using Structural Equation Modeling (SEM) or Partial Least Squares (PLS) techniques, particularly by employing longitudinal performance data from Sharia banks. These advanced statistical methods enable researchers to test complex relationships among latent constructs such as resource orchestration, dynamic capabilities, crisis management effectiveness, ESG implementation, and business sustainability. Previous studies have highlighted the suitability of PLS-SEM for theory development in emerging domains where measurement models are still evolving (Henseler et al., 2021; Yusoff et al., 2022). Applying longitudinal designs allows scholars to observe performance trajectories over time, which is especially relevant in assessing sustainable competitive advantage and the resilience of Islamic banks during regulatory, environmental, or financial shocks (Almugari et al., 2023). Moreover, longitudinal SEM approaches help establish causal inferences rather than mere correlations, thereby offering more robust academic contributions. Such empirical rigor is essential for contextualizing strategic models in real-world Islamic banking operations and informing both policy and practice.

5.2 Practical Implications

- **For first-mover Sharia banks: roadmap to reconfigure resources and adopt ESG-aligned innovation strategies.**

For first-mover Sharia banks, there is a critical strategic imperative to reconfigure internal resources and adopt ESG-aligned innovation strategies in order to sustain their competitive edge and institutional legitimacy in a rapidly evolving financial ecosystem. These banks, which once led by virtue of early market entry and Sharia-compliance leadership, now face increasing pressure to respond to changing stakeholder expectations around sustainability, governance, and resilience (Aziz et al., 2023). A practical roadmap involves leveraging resource orchestration to restructure existing capabilities and bundle them with new ESG-oriented processes—such as green financing, digital innovation for inclusive access, and ethical investment screening (Khan et al., 2022). Moreover, embedding dynamic capabilities into organizational routines enables these banks to sense, seize, and transform opportunities arising from regulatory shifts and global ESG standards (Rahman & Ismail, 2024). By aligning their innovation strategies with ESG principles, first-mover Islamic banks can differentiate themselves not only on religious compliance but also on value creation and impact sustainability, thereby reinforcing their strategic position and securing long-term viability in dual banking environments.

- **For regulators: signals need to develop performance metrics tied to sustainability beyond compliance.**

The findings of this study underscore the urgent need for regulators to move beyond compliance-based frameworks and develop performance metrics that explicitly measure sustainability in Islamic financial institutions. Traditional supervisory tools tend to focus on Shariah compliance, liquidity, and profitability, overlooking critical indicators such as environmental impact, social contribution, and long-term governance

structures (Grassa et al., 2025). In emerging dual-banking systems like Indonesia, this regulatory gap contributes to a disconnect between strategic sustainability ambitions and accountability mechanisms, especially for first-mover Sharia banks striving to lead on ESG commitments. A forward-looking regulatory roadmap should incorporate ESG-aligned performance benchmarks, industry-specific sustainability scorecards, and dynamic resilience indicators tailored to the Islamic finance ethos (Izzadieny et al., 2025). Such frameworks would not only support transparent reporting and investor confidence but also drive behavioral shifts among banks toward purpose-driven value creation. This aligns with global sustainability standards while respecting the unique religious and socio-economic context of Islamic banking, thus ensuring regulatory evolution matches the sector's strategic trajectory.

- **For investors: highlights untapped potential of Islamic finance sector when aligned with global ESG expectations.**

The integration of ESG principles into Islamic finance presents a significant, yet underexplored, opportunity for investors seeking both ethical alignment and long-term financial returns. While Islamic finance inherently adheres to ethical and social justice principles rooted in Sharia, the global shift toward ESG standards creates a unique synergy that remains largely untapped. Studies have highlighted that aligning ESG with Islamic financial instruments can unlock broader capital flows, particularly through vehicles like Sharia-compliant green sukuk and ethical funds (Narayan et al., 2025; Hamdouni, 2025). Investors are increasingly recognizing that Islamic finance, when strategically aligned with global ESG expectations, can serve as a competitive investment vehicle, offering both financial performance and socio-environmental impact. Furthermore, technological advances such as ESG-driven fintech and standardized Islamic ESG disclosures can facilitate greater investor confidence and transparency (Hamadou & Haruna, 2025; Acharya et al., 2025). This intersection signals a promising investment horizon, especially in emerging markets where Islamic financial institutions are well-positioned to lead sustainable innovation.

6. Conclusion

- **Despite early mover advantages, Sharia banks in Indonesia face complex sustainability hurdles.**

Although first-mover Sharia banks in Indonesia such as Bank Muamalat Indonesia and Bank Syariah Indonesia initially held a strategic advantage through early adoption of Islamic financial principles, they now encounter complex and persistent sustainability hurdles. Despite beginning alongside their conventional counterparts, these institutions have struggled to match them in terms of market share, asset growth, and operational performance (Tariq et al., 2024). Multiple factors contribute to this gap, including limited capital mobilization, underdeveloped ESG integration frameworks, and a lack of adaptive strategic capabilities tailored to socio-religious and environmental demands (Hassan et al., 2023). Moreover, regulatory environments often favor compliance rather than innovation, restricting Sharia banks from capitalizing fully on their ethical finance positioning (Muneeza & Mustapha, 2021). Bibliometric and SLR findings reinforce that while Islamic banking holds potential for sustainable leadership, the interplay

between resource orchestration, ESG alignment, and crisis readiness remains fragmented. To remain competitive and fulfill their ethical mandate, Indonesian Sharia banks must undergo strategic transformation anchored in sustainability-centric performance systems, proactive governance, and resilient operational models.

- **Strategic capabilities and competitive advantage as pivotal levers.**

In the quest for sustainable performance, strategic capabilities and competitive advantage emerge as pivotal levers for Islamic banks, especially those positioned as first movers in evolving markets like Indonesia. The dynamic interplay between internal capabilities—such as innovation readiness, resource orchestration, and crisis response—and the ability to achieve sustainable competitive advantage (SCA) is increasingly recognized as a determinant of long-term success (Yusof & Adnan, 2024). Studies indicate that while Sharia-compliant banks often possess strong ethical positioning, this alone is insufficient without strategic agility to adapt to ESG imperatives and stakeholder expectations (Alam et al., 2022). Embedding capabilities that enable organizations to sense, seize, and reconfigure resources is essential for translating values into market differentiation and resilience (Hassan et al., 2023). Moreover, the mediating role of SCA in linking strategic resources to business sustainability outcomes has gained empirical support, making it a key construct in conceptual frameworks targeting performance enhancement within Islamic financial institutions. Thus, elevating strategic capability development and integrating it with performance strategy is crucial for Sharia banks to move beyond compliance and toward competitive leadership in sustainable finance.

- **This paper contributes to a more integrated and context-aware understanding of sustaining Islamic financial institutions.**

This paper contributes to a more integrated and context-aware understanding of sustaining Islamic financial institutions by bridging fragmented theoretical perspectives—namely the Resource-Based View (RBV), Dynamic Capabilities, Crisis Management, and ESG frameworks—within the unique landscape of Islamic banking. Prior literature has often examined these strategic levers in isolation, with limited contextualization in emerging markets and faith-based financial systems (Gait & Worthington, 2022). By embedding Sharia principles, socio-religious expectations, and dual compliance challenges, this study advances a more holistic framework that not only addresses internal strategic mechanisms but also aligns them with environmental and governance imperatives (Omar et al., 2023). The findings emphasize the need for institutional agility and ethical alignment as mutually reinforcing pillars of sustainable performance. Furthermore, by proposing a roadmap tailored to first-mover Sharia banks in Indonesia, this research offers both theoretical and practical contributions for navigating the complex terrain of long-term competitiveness in Islamic finance.

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