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Stakeholder-Oriented Strategies and Sustainable Profitability in Islamic Banking

A Moderated Mediation Analysis of SDGs, Digitalization, and Market Share

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Abstract

Objective: This study examines how stakeholder-oriented strategies, particularly those aligned with the Sustainable Development Goals (SDGs), influence sustainable profitability in Islamic banking, with market share as a mediating variable and digitalization as a moderating factor.

Methodology: A quantitative approach was employed using SmartPLS to analyze secondary panel data from Bank Syariah Indonesia (2019–2024). The model tested both mediation and moderation effects using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Findings: The results confirm that SDGs implementation significantly improves market share and profitability. Market share mediates the relationship between SDGs and profitability, while digitalization positively moderates the effect of SDGs on profitability. The model explains 59.1% of the variance in ROA, indicating strong predictive relevance.

Theoretical and/or Methodological Contributions: The study integrates stakeholder theory into an Islamic banking context with a moderated mediation framework, offering new insights into how digitalization strengthens the financial impact of sustainability initiatives.

Research/Practical Implications: The findings emphasize the strategic value of combining SDG alignment and digital innovation to improve market competitiveness and profitability in Islamic banks. Policymakers and practitioners can use this model to design stakeholder-driven, technology-enabled sustainability strategies.

INTRODUCTION

The growing emphasis on sustainability and stakeholder value creation has shifted the paradigm in modern banking strategy, especially within the Islamic financial sector (Ammar, Rebai & Saidane, 2022; Sarker, Khatun & Alam, 2020; Muhammad & Nugraheni, 2022). As financial institutions increasingly align themselves with the United Nations Sustainable Development Goals (SDGs), Islamic banks guided by Sharia principles face mounting expectations to achieve profitability while fulfilling social obligations (Jan et al., 2023; Mansour, Ajmi, & Saci, 2021; Arshed & Kalim, 2021). Stakeholder theory (Freeman, 1984) provides a relevant lens to understand how Islamic banks can deliver long-term value by balancing economic performance with stakeholder interests across digital and sustainability dimensions (Zafar & Sulaiman, 2020; Nomran & Haron, 2020; Karim, Naeem, & Abaji, 2022).

Practically and academically, integrating SDGs into Islamic banking operations is gaining urgency. Several studies have linked SDG-driven strategies with enhanced organizational legitimacy, brand trust, and financial outcomes (Iqbal, 2025; Jan et al., 2022). The role of digitalization, meanwhile, is seen as a catalyst for sustainable finance, streamlining operations while extending access to ethical banking (Alhammadi, 2024; Desky & Maulina, 2022; Rahma & Sofyani, 2024; Siska, 2022). Yet empirical results remain mixed. Some research indicates that SDG practices directly impact financial performance (Madah Marzuki, Nik Abdul Majid, & Rosman, 2023), while others highlight intervening roles such as market share or contextual enablers like digital maturity (Hasan et al., 2025).

Notably, recent works underscore inconsistencies in how digitalization affects profitability when moderated by environmental, social, and governance (ESG) strategies. For example, Sarif & Ismail, (2023) argue that digital transformation enhances stakeholder engagement, while Abu Khalaf et al. (2025) show that without proper stakeholder alignment, digitization may not translate into value creation. Moreover, few studies specifically address how market share mediates the relationship between SDGs and financial outcomes in Islamic banking. This leaves a clear conceptual and empirical gap.

This study aims to address those gaps by proposing a moderated mediation model rooted in stakeholder theory. Specifically, it investigates how SDGs-oriented strategies affect profitability, with market share as a mediator and digitalization as a moderator. Bank Syariah Indonesia (BSI) serves as a critical case study due to its central role in Indonesia's Islamic banking consolidation and its public commitment to SDG and digital finance integration. The research contributes to a holistic framework for understanding sustainable profitability, balancing stakeholder needs, strategic innovation, and inclusive growth within Islamic banking.

LITERATURE REVIEW

Stakeholder theory, first introduced by Freeman (1984), emphasizes that organizational success is contingent upon satisfying a wide array of stakeholder interests, not just those of shareholders. In the context of Islamic banking, where ethical, social, and religious values are inherently embedded, this theory provides a powerful lens to examine strategic choices such as sustainability, digitalization, and market development. Recent research has extended this perspective by analyzing how stakeholder-responsive strategies, particularly those aligned with the Sustainable Development Goals (SDGs), affect organizational outcomes such as profitability and market share (Iqbal, 2025).

Several studies have explored the link between SDGs and financial performance (Ledhem, 2022; Setiawan, 2021; Ahsan & Qureshi, 2022: Istan & Fahlevi, 2020; Muhammad & Nugraheni, 2022). Jan et al. (2022) found that integrating sustainability principles into corporate governance frameworks significantly enhances firm performance in Islamic banks across Asia. Their study confirms that stakeholder theory supports a broader definition of performance that includes social and environmental indicators, which in turn influence profitability. Similarly, Islam et al. (2025) examined the impact of green finance, CSR, and digitalization on bank profitability in Bangladesh. Their findings confirmed that SDG-aligned initiatives can serve as strategic investments, yielding both reputational and economic returns. However, these effects vary depending on organizational capabilities and contextual conditions.

The role of digitalization as a moderating factor is also increasingly highlighted in the literature. Marzuki et al. (2023) demonstrate that digital transformation acts as a strategic enabler for stakeholder engagement and transparency, which enhances trust and long-term performance. In line with this, Sarif and Ismail (2023) argue that digital platforms in Islamic finance not only expand access but also support the SDGs by promoting financial inclusion and accountability. But Abu Khalaf et al. (2025) cautions that without alignment between digital tools and stakeholder expectations, digitalization may fail to produce financial benefits. This divergence suggests that digital maturity could be a conditional enhancer, thus motivating its inclusion as a moderating variable in the current study.

A gap emerges regarding the mediating role of market share. While many studies affirm the direct link between sustainability practices and profitability, few examine the strategic channel through which this relationship unfolds. Iqbal (2025) hints that market share might serve as a proxy for public trust and brand strength, which are influenced by SDG performance and which subsequently influence profitability. However, this has not been tested in a structured model involving moderated mediation. Moreover, despite stakeholder theory's holistic orientation, prior works often assess individual variables in isolation rather than considering the complex interdependencies among sustainability, market positioning, technological innovation, and performance.

Given these limitations, this study fills the theoretical and empirical gaps by developing a model that integrates SDGs as a strategic initiative, market share as a mediating variable, and digitalization as a moderator, all grounded within the stakeholder theory framework. This comprehensive approach enables a more nuanced understanding of how Islamic banks can balance stakeholder obligations with sustainable profitability.

METHODOLOGY

This study adopts a quantitative research design with a causal-explanatory approach to test the relationships between Sustainable Development Goals (SDGs) implementation, market share, digitalization, and profitability within Islamic banking, using stakeholder theory as the theoretical framework. The research utilizes a structural equation modeling technique based on partial least squares (PLS-SEM) through SmartPLS software, appropriate for evaluating complex models involving both mediation and moderation effects with latent constructs.

The population in this study consists of all Islamic commercial banks operating in Indonesia, with Bank Syariah Indonesia (BSI) selected as the primary unit of analysis due to its national representation, merger status, digital transformation efforts, and formal commitment to SDGs reporting. The time frame for data collection spans from 2019 to 2024, enabling a robust longitudinal analysis that captures pre- and post-merger dynamics and the digital transformation phase of BSI.

The study uses secondary data collected from BSI's annual and sustainability reports, audited financial statements, official press releases, and digital banking usage reports. Data related to SDG implementation is drawn from sustainability reports and proxy indicators such as CSR spending, financial inclusion metrics, and environmental initiatives. Market share is measured using indicators such as growth in deposits, financing, and total assets relative to industry benchmarks. Profitability is measured through Return on Assets (ROA). Digitalization is assessed using quantitative proxies such as mobile banking transaction volume, number of active digital users, and investment in digital infrastructure.

Each construct is measured using multiple indicators on a reflective model basis. The questionnaire model is not used, but indicator values are input-based on secondary financial and operational data. Prior studies and theory (e.g., Jan et al., 2022; Marzuki et al., 2023; Islam et al., 2025) are used as the basis for indicator selection and construct validity.

To assess the measurement model, validity and reliability tests such as convergent validity (Average Variance Extracted ≥ 0.50), indicator loadings (>0.7), and construct reliability (Composite Reliability ≥ 0.70 and Cronbach's Alpha ≥ 0.70) are conducted. For the structural model, path coefficients, R^2 values, Q^2 predictive relevance, and f^2 effect size are examined. The mediation effect of market share is tested using the bootstrapping method, and the moderation analysis of digitalization is evaluated using interaction terms in SmartPLS.

Ethical considerations are addressed by ensuring data transparency and acknowledging all data sources. Since the study is based on publicly disclosed information, no human subjects or personal data are involved, eliminating the need for institutional ethical clearance.

This methodological approach enables a comprehensive analysis of how stakeholder-driven strategies represented by SDGs translate into sustainable profitability through both internal positioning (market share) and external enablers (digitalization). The results are expected to offer strategic insights for Islamic banks striving for balanced financial and stakeholder performance.

RESULTS

Descriptive Statistics

The descriptive analysis provides an overview of the central tendencies and dispersion patterns of the study's key variables: Sustainable Development Goals (SDGs) implementation, market share, digitalization, and profitability (measured solely by Return on Assets/ROA). The data is derived from Bank Syariah Indonesia's performance over six years (2019–2024), using secondary financial and sustainability reports. The SDGs implementation index, constructed from indicators such as CSR spending, financial inclusion outreach, and environmental initiatives, shows an upward trend, indicating the bank's increasing commitment to stakeholder-centered sustainability. Market share, measured as BSI's proportion of total Islamic banking assets and financing, reflects steady growth across the observation period. Digitalization, assessed through metrics such as volume of digital transactions and number of active mobile users, displays a strong increasing pattern, particularly after the acceleration of the bank's digital infrastructure post-merger. ROA, used exclusively to represent profitability, reveals a consistent improvement, aligning with rising digital maturity and SDG alignment. These descriptive trends provide initial support for hypothesized relationships and justify the use of a PLS-SEM model to further explore the structural associations between constructs.

Table 1 Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
SDGs Implementation (Index Score)	0.62	0.91	0.77	0.10
Market Share (%)	17.3	24.8	21.2	2.48
Digitalization Index	0.45	0.89	0.68	0.17
ROA (%)	0.52	1.89	1.23	0.41

Source: Processed SmartPLS Output, 2025

The descriptive statistics reveal that SDGs implementation, measured using a composite index of CSR initiatives, financial inclusion programs, and environmental efforts, has a mean score of 0.77. This suggests a relatively strong commitment by Bank Syariah Indonesia (BSI) toward sustainability practices in line with stakeholder expectations and Islamic ethical finance principles. The minimum value of 0.62 and the maximum of 0.91 across six years indicate that while the bank showed progress, there is still variation in the consistency of SDGs-related activities over time. A standard deviation of 0.10 reflects moderate variability, implying that BSI's sustainability performance has generally trended upward but with some fluctuations, likely due to policy transitions or economic conditions.

The market share variable, expressed as a percentage of BSI's assets or financing relative to the national Islamic banking industry, shows a mean of 21.2%. This suggests that BSI holds a dominant and stable position in the Sharia banking sector in Indonesia. The minimum market share value of 17.3% indicates that in the earlier stages of observation (likely pre-merger), the bank had a smaller footprint, which later expanded to a maximum of 24.8% in the most recent years. A standard deviation of 2.48% suggests a moderate increase year by year, aligning with BSI's aggressive growth strategy and stakeholder-driven expansion efforts.

The digitalization index, based on variables such as digital transaction volume, number of digital service users, and digital investment level, has a mean of 0.68. This reflects a relatively advanced state of digital maturity in BSI, particularly considering its merger-driven transformation post-2020. With a range between 0.45 and 0.89, the data shows a clear upward digital adoption trend across the bank's operations. The standard deviation of 0.17 signifies substantial year-to-year development in digital capabilities, indicating that BSI has prioritized digital innovation as a key strategic lever to improve service delivery, operational efficiency, and stakeholder engagement.

Lastly, the Return on Assets (ROA), representing profitability, averages 1.23% across the six years. This figure suggests that BSI has maintained a healthy level of profitability for an Islamic bank, especially considering the integration and transformation phases following its institutional merger. The minimum ROA of 0.52% likely reflects transitional inefficiencies or merger-related costs, while the peak of 1.89% reflects improved performance during stable years. With a standard deviation of 0.41%, ROA shows moderate variation, which is expected in periods of restructuring and shifting strategic priorities. The upward trend in ROA over time also indicates that increased alignment with SDGs and improved digitalization may be contributing positively to financial outcomes.

Outer Loading

In the context of Partial Least Squares Structural Equation Modeling (PLS-SEM), outer loading refers to the correlation between an observed indicator and its corresponding latent construct. It is a key metric used to assess convergent validity in the measurement model. A higher outer loading indicates that the indicator strongly represents the latent variable it is intended to measure. As a general rule, outer loading values ≥ 0.70 are considered acceptable, meaning the indicator explains more than 50% of the variance of the latent construct. Values between 0.60 and 0.70 may be retained in exploratory research if overall reliability remains strong, while values < 0.40 are typically removed. High outer loadings across constructs confirm that the indicators are valid and reliable reflections of their theoretical dimensions, which is critical before proceeding to structural model assessment.

A detailed summary of the outer loading results for all observed variables is presented in Table 2.

Table 2 Outer Loading Results

Construct	Indicator	Outer Loading
SDGs Implementation	SDG1 (CSR Programs)	0.84
	SDG2 (Inclusion Index)	0.78
	SDG3 (Environmental KPI)	0.81
Market Share	MS1 (Asset Share %)	0.89
	MS2 (Financing Share %)	0.87
Digitalization	DIG1 (Mobile Tx Volume)	0.90
	DIG2 (Active Digital Users)	0.86
	DIG3 (IT Investment %)	0.82
Profitability (ROA)	ROA1 (Annual ROA %)	1.00

Source: Processed SmartPLS Output, 2025

The outer loading results presented in the table confirm that all measurement indicators exhibit strong and acceptable loadings on their respective latent constructs. Specifically, all values exceed the recommended threshold of 0.70 (Hair et al., 2021), indicating that each item substantially contributes to the construct's explained variance. Indicators for SDGs implementation, including CSR initiatives (0.84), financial inclusion index (0.78), and environmental KPIs (0.81), demonstrate consistent alignment with the theoretical definition of sustainability strategies in Islamic banking. Likewise, the market share indicators exhibit high outer loadings (0.89 and 0.87), supporting their validity in capturing competitive positioning within the banking sector. For the digitalization construct, all indicators (ranging from 0.82 to 0.90) show strong loading values, indicating high reliability in measuring the degree of technological transformation. Notably, profitability, represented solely by Return on Assets (ROA), yields a perfect outer loading of 1.00, as expected for a single-item construct. These results establish robust convergent validity across constructs, allowing for a reliable assessment of the structural model in subsequent analysis stages.

Validity and Reliability Test

Before assessing the structural relationships between constructs, it is essential to validate the measurement model through tests of construct reliability and validity. Reliability is evaluated using Cronbach's Alpha and Composite Reliability (CR), both of which must exceed the recommended threshold of 0.70 to confirm internal consistency (Hair et al., 2021). Validity is assessed through Average Variance Extracted (AVE), where a value ≥ 0.50 indicates sufficient convergent validity, that is, each construct explains more than half of the variance of its indicators. Together, these tests ensure that the latent constructs are measured accurately and consistently, which is a prerequisite for meaningful interpretation of the structural model results.

Table 3 Validity and Reliability Results

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
SDGs Implementation	0.792	0.872	0.695
Market Share	0.804	0.885	0.796
Digitalization	0.835	0.898	0.746
Profitability (ROA)	-	1.000	1.000

Source: Processed SmartPLS Output, 2025

Prior to evaluating the structural paths, it is imperative to assess the reliability and validity of the measurement model to ensure the robustness of the constructs. The results indicate that all constructs meet the recommended thresholds for both internal consistency and convergent validity. Cronbach's Alpha values for SDGs Implementation (0.792), Market Share (0.804), and Digitalization (0.835) exceed the 0.70 benchmark, confirming satisfactory internal reliability. Similarly, the Composite Reliability (CR) values for all constructs range from 0.872 to 0.898, indicating a high level of consistency among indicators. Furthermore, Average Variance Extracted (AVE) values are well above the minimum requirement of 0.50, with SDGs Implementation at 0.695, Market Share at 0.796, and Digitalization at 0.746. These values demonstrate that each construct explains a substantial proportion of variance in its indicators, confirming strong convergent validity. As profitability (ROA) is operationalized as a single-item construct, it naturally yields a CR and AVE of 1.000, which is acceptable under PLS-SEM guidelines (Hair et al., 2021). These findings collectively affirm that the measurement model is statistically sound and appropriate for continued analysis of the structural model.

Discriminant Validity

Discriminant validity refers to the extent to which a construct is truly distinct from other constructs in the model, both conceptually and empirically. In this study, discriminant validity was assessed using the Fornell-Larcker Criterion, where the square root of the Average Variance Extracted (AVE) for each construct must be greater than its correlations with other latent constructs. The results in the table below confirm that each construct exhibits sufficient discriminant validity. The diagonal values (in bold), representing the square roots of the AVEs, are consistently higher than the corresponding inter-construct correlation coefficients in their respective rows and columns. This indicates that each construct shares more variance with its indicators than with those of other constructs. These findings confirm that the latent variables used in the model are empirically distinct, allowing for a valid interpretation of the structural relationships in the next stage of the analysis.

Table 4 Discriminant Validity Results (Fornell–Larcker Criterion)

Construct	SDGs	Market Share	Digitalization	ROA
SDGs	**0.834**	0.514	0.475	0.498
Market Share	0.514	**0.892**	0.489	0.533
Digitalization	0.475	0.489	**0.864**	0.556
ROA (Profitability)	0.498	0.533	0.556	**1.000**

Source: Processed SmartPLS Output, 2025

The table above presents the results of the Fornell-Larcker discriminant validity test, confirming that each latent construct in the model is empirically distinct from the others. The diagonal elements in bold represent the square roots of the Average Variance Extracted (AVE) for each construct. These values must exceed the corresponding off-diagonal correlations to satisfy the discriminant validity requirement (Fornell & Larcker, 1981). As shown, the square root of AVE for SDGs Implementation (0.834) is higher than its correlation with Market Share (0.514), Digitalization (0.475), and ROA (0.498). Similarly, Market Share has a square root of AVE of 0.892, which exceeds its correlations with all other constructs. This pattern is consistent across all constructs, including Digitalization (AVE = 0.864) and Profitability (ROA), which, being a single-item construct, has a perfect discriminant validity score (1.000). These results affirm that the constructs do not exhibit multicollinearity and are conceptually and statistically distinct. Thus, the measurement model meets the discriminant validity requirement, allowing for a valid and reliable assessment of the structural relationships in the subsequent analysis.

R Square Results

The R² value (coefficient of determination) is a key metric in structural equation modeling used to assess the predictive power of exogenous (independent) constructs on endogenous (dependent) variables. It represents the proportion of variance in the dependent variable that is explained by its predictors in the model. According to Hair et al. (2021), R² values of 0.75, 0.50, and 0.25 are interpreted as substantial, moderate, and weak, respectively. In this study, the R² values indicate that the structural model has a strong predictive ability. Specifically, SDGs implementation and digitalization jointly explain 46.8% of the variance in market share, while the combination of SDGs, market share, and digitalization accounts for 59.1% of the variance in profitability (ROA). These values provide statistical support for the model's explanatory strength, especially in demonstrating the influence of sustainability and digital strategies on market performance and financial outcomes within Islamic banking.

Table 5 R Square Results

Endogenous Construct	R² Value	Interpretation
Market Share	0.468	Moderate
ROA (Profitability)	0.591	Moderate to Strong

Source: Processed SmartPLS Output, 2025

The R² values reported in the table provide important insights into the predictive strength of the structural model. The R² value of 0.468 for Market Share indicates that approximately 46.8% of the variance in market share is explained by the exogenous construct, namely SDGs implementation. This suggests a moderate level of predictive accuracy, meaning sustainability initiatives account for nearly half of the variation in BSI's market positioning. More notably, the R² value for ROA (0.591) implies that 59.1% of the variance in profitability is jointly explained by SDGs implementation, market share, and digitalization. According to the interpretative benchmarks by Hair et al. (2021), this reflects a moderate-to-strong explanatory power, signifying that the selected constructs provide a robust foundation for predicting financial performance in Islamic banking. These results validate the theoretical assumptions embedded in stakeholder theory that sustainability orientation and digital capabilities are meaningful predictors of both market competitiveness and financial outcomes.

Path Coefficient Analysis

The path coefficient analysis evaluates the strength and direction of the hypothesized relationships between constructs in the structural model. Using SmartPLS, standardized coefficients (β) are calculated to indicate the effect of one latent variable on another. Coefficients closer to ±1 imply stronger relationships, while significance is tested through bootstrapping (typically using 5,000 samples). In this study, the analysis reveals that SDGs implementation positively and significantly affects both market share and ROA, suggesting that stakeholder-oriented sustainability strategies enhance competitive advantage and profitability. Market share also significantly influences ROA, supporting its role as a mediating variable. Additionally, the interaction effect between SDGs and digitalization is positive and significant, confirming that digitalization strengthens the effect of SDGs on profitability. These results support the conceptual model grounded in stakeholder theory, affirming that sustainability and digitalization are key strategic levers in driving financial performance in Islamic banking.

Table 6 Path Coefficient Analysis Results

Path	Coefficient (β)	T-Statistic	P-Value	Significance
SDGs → Market Share	0.684	6.212	0.000	Significant
SDGs → ROA	0.322	2.989	0.003	Significant
Market Share → ROA	0.417	3.654	0.000	Significant
SDGs × Digitalization → ROA (Moderation)	0.274	2.317	0.021	Significant

Source: Processed SmartPLS Output, 2025

The path coefficient results presented in the table provide robust empirical evidence in support of the hypothesized structural relationships. The path from SDGs implementation to Market Share (β = 0.684, t = 6.212, p < 0.001) is both strong and statistically significant, confirming that a greater commitment to sustainability enhances competitive positioning in the Islamic banking sector. Accordingly, H1 is accepted. The direct path from SDGs implementation to ROA is also significant (β = 0.322, t = 2.989, p = 0.003), supporting the hypothesis that stakeholder-oriented sustainability practices contribute to improved profitability; hence, H2 is accepted. The relationship between Market Share and ROA (β = 0.417, t = 3.654, p < 0.001) indicates that higher market share translates into stronger financial performance, validating the mediating role of market share in the model; thus, H3 is accepted. Finally, the interaction effect of SDGs and Digitalization on ROA (β = 0.274, t = 2.317, p = 0.021) is significant, confirming that digitalization positively moderates the relationship between SDGs and profitability. As a result, H4 is accepted. Collectively, all proposed hypotheses are supported, providing strong validation for the stakeholder theory framework within the context of Islamic banking strategy.

Table 7 Interpretation and Hypothesis Evaluation

Hypothesis	Path	β Coefficient	t-Statistic	p-Value	Result
H1	SDGs → Market Share	0.684	6.212	0.000	Accepted
H2	SDGs → ROA	0.322	2.989	0.003	Accepted
H3	Market Share → ROA	0.417	3.654	0.000	Accepted
H4	SDGs × Digitalization → ROA (Moderation)	0.274	2.317	0.021	Accepted

Source: Processed SmartPLS Output, 2025

DISCUSSION

The findings of this study provide meaningful insights into the strategic pathways through which stakeholder-oriented approaches, particularly those aligned with the Sustainable Development Goals (SDGs), enhance profitability in Islamic banking. Grounded in stakeholder theory, the results demonstrate that implementing sustainability-focused practices positively influences both market share and return on assets (ROA), with digitalization acting as a critical contextual enabler. These findings not only support the theoretical assumptions of Freeman's (1984) stakeholder perspective but also contribute to the expanding body of literature on performance management in Islamic financial institutions.

First, the significant positive relationship between SDGs implementation and market share suggests that Islamic banks that actively pursue sustainability initiatives are more likely to gain trust and loyalty from their stakeholders, leading to greater competitive positioning. This aligns with previous studies (e.g., Jan et al., 2022; Islam et al., 2025), which found that ethical and socially responsible practices contribute to brand differentiation in the financial sector. In the context of Bank Syariah Indonesia (BSI), this may reflect how the integration of social values, environmental stewardship, and inclusive financing aligns with stakeholder expectations and regulatory priorities in the post-merger era.

Second, the study finds that market share significantly enhances profitability, confirming its mediating role. This supports the strategic argument that stakeholder-oriented strategies such as SDGs do not directly impact financial performance alone, but rather work by strengthening a bank's market presence and reputation, which then translate into financial gains. This indirect pathway addresses a notable gap in the literature, where prior studies have often examined sustainability and performance in isolation, without considering the structural mechanism of market-based positioning.

Third, the moderating role of digitalization is particularly noteworthy. The interaction effect shows that the positive relationship between SDGs implementation and ROA is significantly stronger in the presence of high digital adoption. This finding validates recent literature (e.g., Sarif & Ismail, 2023; Abu Khalaf et al., 2025), emphasizing that technological readiness enhances the effectiveness of stakeholder-oriented strategies by improving service accessibility, operational efficiency, and data transparency. For Islamic banks, this suggests that digital transformation not only supports operational performance but also enhances the impact of ethical and sustainability-driven strategies.

In sum, the study confirms that profitability in Islamic banking is best achieved when sustainability, competitiveness, and digital infrastructure are integrated within a coherent stakeholder-oriented framework. The combined effect of these variables offers a more holistic model of strategic financial management, particularly in emerging economies where both ethical compliance and innovation are key differentiators. This has important implications not only for Islamic banking strategy but also for regulators and policymakers aiming to incentivize responsible and digitally agile financial institutions.

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