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UNIVERSITAS LA TANSA MASHIRO
جامعة لا تنس مصيرا

Juliansyah Noor <juliansyah.noor@unilam.ac.id>

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Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance

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Keywords:	Green environmental innovation, Clan, Adhocracy, Hierarchy, Market, Shariah financial performance

Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance

Abstract

Purpose

This study explores how corporate culture influences green environmental innovation and assesses its impact on Shariah financial performance within Islamic financial institutions.

Design/methodology/approach

A survey of 270 managers from institutions in Banten, Jakarta, and West Java, Indonesia, was conducted. Data were analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to test relationships between four culture types—clan, adhocracy, hierarchy, and market—green innovation dimensions (organizational practices, processes, and products), and financial performance.

Findings

The results indicate that adhocracy and market cultures significantly promote green innovation, while clan culture has a weaker yet positive effect. Conversely, hierarchy culture negatively affects all innovation dimensions. Green organizational practices, processes, and products positively contribute to Shariah financial performance, suggesting that flexible and market-oriented cultures help align sustainability with financial objectives.

Practical implications

From a practical perspective, managers are encouraged to foster innovation-friendly environments, align market-driven incentives with environmental goals, and revise rigid internal structures. Recommended mechanisms include cross-functional green teams, eco-compliance key performance indicators, and integrating *maqashid-al-shariah* principles into environmental strategies.

Originality/value

This study advances the Islamic finance and sustainability literature by empirically connecting culture, innovation, and performance, and offers practical strategies for embedding environmental innovation within Shariah-compliant financial operations.

Keywords: Green environmental innovation, Clan, Adhocracy, Hierarchy, Market, Shariah financial performance

1. Introduction

Green environmental innovation has the potential to make processes and products more energy efficient and reduce the use of green materials and energy, which is why many countries have laws that encourage businesses to use sustainable methods. However, despite these efforts, several firms have encountered significant challenges. Consequently, they have faced difficulties in attaining what padilla-Lozano and Collazzo (2022) refer to as a "win-win" scenario, wherein environmental enhancements coincide with financial prosperity. This failure to generate both green and financial benefits has dampened some firms' motivation to pursue green environmental innovation (Roscoe *et al.*, 2019).

In Indonesia, the rise of Shariah-compliant financial institutions has added new dimensions to discussions around sustainability. These institutions operate under Islamic principles that promote ethical investment, environmental stewardship (*khalifah*), and social responsibility (*maslahah*) (Julia and Kassim, 2020). While previous studies have explored the role of regulations, stakeholder influence, and managerial orientation in driving green innovation (Arici and Uysal, 2021; Syamlan *et al.*, 2025), the relationship between green environmental innovation and Shariah financial performance remains insufficiently understood (Gürlek and Koseoglu, 2021).

One area that remains underexplored is the role of corporate culture in improving environmental innovation (Iqbal, Akhtar, *et al.*, 2021). Corporate culture, as a system of shared values and norms, plays a critical role in influencing organizational behavior and strategic decision-making. Despite its significance, limited research has been conducted to understand how different types of corporate culture—such as clan, adhocracy, hierarchy, and market cultures—drive the adoption and effectiveness of green environmental innovation. Furthermore, the specific impact of various dimensions of green innovation—such as green organizational practices, green processes, and green products—on Shariah financial performance has not been sufficiently examined.

This study addresses these gaps by investigating the influence of organizational culture on green environmental innovation, and how different dimensions of green innovation relate to Shariah financial performance within Indonesia's Islamic banking sector. By integrating the Competing Values Framework (Cameron and Quinn., 2011) and the Resource-Based View (Barney, 2018) with Shariah principles, this study aims to provide a culturally grounded and contextually relevant understanding of sustainable performance in Islamic finance.

2. Literature review

Recent studies have increasingly examined the intersection between environmental innovation and Islamic finance in different contexts. For instance, Lee and Isa (2023) found that Shariah-compliant firms in Malaysia adopting ESG practices were able to enhance their market reputation while simultaneously improving financial performance. Similarly, Alghafes et al. (2024) emphasized the importance of ESG-related factors in determining the financial stability of Islamic banks across GCC countries. These studies suggest that Islamic financial institutions are not only pressured by regulatory requirements but also by shifting consumer preferences towards sustainable financial products.

2.1 Corporate culture

Corporate culture consists of a set of shared fundamental beliefs and assumptions developed by an organization to address internal cohesion and adapt to external changes (Bashir, 2022; Wang *et al*., 2021; Provasnek *et al*., 2017; Mady *et al*., 2023). These core assumptions are not only widely accepted by the organization's members but are also continuously passed on to newcomers (Schein, 2016). In addition, corporate culture encompasses the values, norms, and assumptions that guide decision-making and actions within the organization (Barney, 2001; Zheng *et al*., 2023; Farzaa *et al*., 2021; Arici and Uysal, 2021). Cameron and Quinn. (2011) proposed a framework that classifies organizational culture into four distinct types, using two main dimensions: the balance between flexibility and stability, and the focus on internal versus external concerns (Nazarian *et al*., 2017). For this study, Cameron and Quinn's (2011) classification will be adopted, dividing corporate culture into four categories: clan, adhocracy, hierarchy, and market cultures.

2.2 Green environmental innovation

Green environmental innovation involves creating and applying new or improved methods, systems, technologies, or products designed to reduce or prevent damage to the environment (Farzaa *et al*., 2021; Iqbal *et al*., 2021). Green environmental innovation can be categorized into three dimensions: green processes, green organizations, and green products (Zhou *et al.*, 2021). The green processes focuses on optimizing resource use throughout production reduce impact environmental (Zhang *et al*., 2021; Oladapo, 2024; Alghafes *et al*., 2024). Green products involve creating new or significantly improved products or services that prioritize resource efficiency and environmental protection (Farzaa *et al*., 2021). Lastly, green organizations extend beyond R&D and technical departments, influencing management practices and overall organizational approaches to sustainability (Zhou *et al*., 2021; Zhang *et al*., 2021).

2.3 Clan culture and green environmental innovation

Clan culture is characterized by a focus on building strong interpersonal relationships, providing mutual support, and fostering a sense of harmony and collaboration within the organization (Cameron and Quinn., 2011). This cultural archetype aligns closely with Islamic organizational ethics, particularly the principles of brotherhood (*ukhuwah*), shura (mutual consultation), and trust and accountability (*amanah*), which form the ethical backbone of Shariah-compliant institutions (Dusuki and Abdullah, 2007; Dusuki and Asyraf, 2008). These values are not only religious imperatives but also practical enablers of knowledge exchange, participatory governance, and ethical innovation.

Clan culture emphasizes a warm, friendly work environment, where leaders act as mentors or parental figures, echoing the Islamic concept of exemplary leadership (*qudwah hasanah*). Trust is foundational, allowing for open communication between managers and employees. This culture cultivates an environment where knowledge is freely exchanged, and employees actively learn from one another, facilitating organizational knowledge transfer (Vasileiou *et al*., 2022; Parrilli *et al*., 2023). Within an Islamic context, this is further reinforced by the religious emphasis on mutual cooperation (*ta'awun*) and collective responsibility, which are essential for building cohesive teams committed to both ethical and environmental objectives.

Environmental policies (Wang, 2019; Padilla-Lozano and Collazzo, 2022; Aiwu *et al.*, 2022), stakeholder pressure (Lee and Isa, 2023), available resources (Isa and Lee, 2020), and managerial cognition (Kwan *et al.*, 2018) all interact with the structural features of clan culture to create enabling conditions for green innovation. Specifically, this culture encourages the adoption of green organizational, environmentally conscious processes, and sustainable product development, particularly in institutions where Shariah values promote stewardship (*khalifah*) and environmental responsibility (*mas'uliyyah*). Based on the above discussion, the following hypotheses are proposed:

H_1. Clan culture influences green organizations.

H_2: Clan culture influences green processes.

H_3: Clan culture influences green products.

2.4 Adhocracy culture and green environmental innovation

Adhocracy culture prioritizes creating an environment that fosters innovation, embraces change, and encourages individual initiative and independence (Mohsni *et al.*, 2023; Cameron and Quinn., 2011). Within this culture, organizations aim to build a dynamic atmosphere where challenge, risk-taking, and creativity are valued, especially in the pursuit of environmental goals (Tariq *et al.*, 2019; Zheng *et al.*, 2023; Lee and Isa, 2023). Given that green organizations, processes, and products often involve high levels of uncertainty and risk, organizations with an adhocracy culture are more inclined to make bold, environmentally innovative decisions. In such an environment, the drive for green environmental innovation typically emerges organically from the organization's members, rather than through formal, structured decision-making processes.

In the context of Islamic financial institutions, adhocracy culture aligns closely with the Shariah principle of ijtihad—independent reasoning applied in new or evolving circumstances to uphold Islamic objectives (*maqasid al-shariah*). The proactive search for novel, Shariah-compliant solutions to environmental challenges reflects the dynamic, forward-thinking spirit of ijtihad. Adhocracy culture also facilitates organizational promotion of public interest (*maslahah*), a foundational Islamic principle that prioritizes human and environmental well-being over short-term profit maximization.

Adhocracy culture is characterized by its ability to tolerate stress and adapt to challenging situations. As environmental regulations become stricter, this type of culture encourages organizations to pursue green organizations, processes, and products in response to external pressures. This adaptability is particularly relevant in Shariah-compliant settings, where firms must respond not only to regulatory demands but also to religious imperatives concerning environmental preservation and social responsibility (*khalifah and amanah*). Accordingly, the following hypotheses are formulated:

H_4. Adhocracy culture influences green organizations.

H_5. Adhocracy culture influences green processes.

H_6. Adhocracy culture influences green products.

2.5 Hierarchical culture and green environmental innovation

The principles of stability and control form the foundation of a hierarchical culture (Cameron and Quinn., 2011). Organizations with a hierarchical culture are typically structured around a clear chain of command and adhere to formal rules and regulations. These companies are led by conservative and risk-averse management styles, with an emphasis on maintaining operational stability and efficiency over the long term (Morgan and Vorhies, 2018). Given the focus on predictability and order within a hierarchy culture, firms are often less inclined to engage in green organizations, processes, and products, as such innovations often come with higher levels of uncertainty and risk, which may conflict with the culture's preference for stability and control.

In Shariah-compliant financial institutions, hierarchical features are often embedded within formal Shariah governance frameworks, including Shariah Supervisory Boards (SSBs), Shariah compliance audits, and layers of procedural review designed to ensure conformity with Islamic legal principles (Muryanto, 2023; Rahim *et al.*, 2024). While these structures are critical for maintaining religious legitimacy and stakeholder trust, their bureaucratic and rule-driven nature may inadvertently hinder responsiveness to dynamic sustainability demands or inhibit the flexible thinking necessary for environmental innovation.

Within hierarchical organizational structures, rigidity and a strong reliance on procedures can create a work environment in which employees are discouraged from taking initiative or engaging in proactive problem-solving. As green innovation often requires open collaboration, experimentation, and cross-functional integration, such a conservative and centralized environment may stifle the creativity required to implement green organizational practices, processes, and products. Moreover, the hierarchical culture's limitations on autonomy and decision-making authority can suppress knowledge sharing, which is essential for driving environmental innovation across departments and organizational levels. Thus, the following hypotheses are proposed:

H_7: Hierarchical culture impacts green organizations.

H_8: Hierarchical culture impacts green processes.

H_9: Hierarchical culture impacts green products.

2.6 Market culture and green environmental innovation

Market culture is a results-driven organizational culture that prioritizes competition, focusing on achieving a large market share and enhancing customer satisfaction (Cameron and Quinn., 2011; Nazarian *et al.*, 2017). As consumer demand for green products continues to rise, organizations shaped by a market-oriented culture are more likely to pursue green organizations, processes, and products. This drive for innovation is motivated by the desire to satisfy customer preferences and capture a greater share of the market.

Green organizations, processes, and products have become a crucial strategy for firms to secure a competitive advantage in today's market. Since market culture is inherently focused on competition, businesses influenced by this culture are likely to adopt green organizations, processes, and products as a way to outperform their competitors. To achieve market dominance and leadership, firms actively gather diverse information about external market conditions and encourage internal knowledge sharing. This exchange of information can provide a valuable foundation for driving green organizations, processes, and products within the organization.

In Shariah-compliant financial institutions, market orientation can be ethically aligned with Islamic principles, particularly when pursued through the lens of maslahah (promotion of public benefit) and amanah (trustworthiness). The concept of hisbah—market accountability to ensure fairness, transparency, and the well-being of society—also reinforces the legitimacy of environmentally sustainable practices as part of institutional performance. Furthermore, the Islamic value of excellence in work (*itqan*) encourages institutions to go beyond minimal compliance and pursue best practices, including sustainability leadership, innovation, and environmental stewardship (khalifah).

While market culture is often associated with material performance metrics, within Islamic financial contexts, market competitiveness must be balanced with Shariah principles that uphold justice, transparency, and responsibility toward creation. Thus, the drive to adopt green innovations under a market culture can serve both commercial and spiritual goals when integrated with the *maqasid al-shariah*—particularly the protection of life (*hifz al-nafs*) and the environment (*hifz al-bi'ah*). Therefore, the following hypotheses are developed:

H_{10}. Market culture impacts green organizations.

H_{11}: Market culture impacts green processes.

H_{12}: Market culture impacts green products.

2.7 Green environmental innovation and Sharia financial performance

In today's highly competitive business landscape, companies must focus on fostering individual competitiveness, which makes innovation a critical factor for success. Innovation not only helps firms maintain an edge over their competitors, but it also enhances their ability to adapt and thrive, ultimately leading to improved performance. Green organizations, processes, and products, which focus on reducing environmental harm throughout the product lifecycle, represent a key strategy in this context. By implementing such sustainable innovations, firms can gain a market advantage, drive revenue growth, and improve Sharia financial performance (Jan *et al*., 2022; Rashedul Hasan, 2022).

Green organizations, processes, and products play a pivotal role in optimizing the use of raw materials, minimizing pollutant emissions, and offering a cost-effective advantage. Additionally, it facilitates the creation of superior and more inventive products, which can help distinguish a company from its competitors (Jan *et al*., 2022). When companies adopt green technologies and develop environmentally friendly products, they often garner positive recognition from governments, consumers, and other stakeholders. This enhanced reputation not only helps businesses expand their market share and improve customer satisfaction but also strengthens their Sharia financial performance (Julia and Kassim, 2020). According to the resource-based view, a company's sustained competitive edge and superior performance arise from its distinct, valuable, scarce, and hard-to-replicate resources and capabilities (Liao, 2016).

In Shariah-compliant institutions, performance is not evaluated solely on financial indicators, but also through alignment with the *maqasid al-shariah*—the higher objectives of Islamic law. These include the protection of life (*hifz al-nafs*), wealth *(hifz al-mal*), and the environment (*hifz al-bi'ah*), among others. Green innovation thus becomes both an economic and ethical imperative. Practices such as resource conservation, pollution reduction, and environmental accountability resonate deeply with the Islamic values of khalifah (stewardship of the earth), trust (*amanah*), and public interest (*maslahah*).

According to the resource-based view suggests that a company's long-term competitive edge and outstanding performance stem from its unique, valuable, scarce, and non-substitutable resources and capabilities (Barney, 2001). Based on the resource-based view, the following hypotheses are put forward:

H_{13}: Green organizations impact Shariah financial performance.

H_{14}: Green processes impact Shariah financial performance.

H_{15}: Green products impact Shariah financial performance.

Building upon the analysis provided above, we developed the theoretical model shown in Figure I.

[Insert Figure 1 here]

3. Research methodology

3.1 Sample and procedures

This research employed a questionnaire to gather data, employing established scales to ensure robust measurement. To guarantee the validity and reliability of the questions, the study underwent a thorough translation process, which included back-translation and multiple revisions to resolve any inconsistencies or unclear items. Before launching the main study, a pilot test was conducted with 20 Shariah financial institutions in the Banten province. Feedback from this pilot led to refinements in the questionnaire, addressing issues such as unclear wording and ambiguous phrasing. The formal data collection commenced in March 2024 and continued for one month, targeting Shariah financial firms across Banten, Jakarta, and West Java. Respondents were selected from middle and senior management positions, ensuring that the individuals completing the survey were well-acquainted with the operations of their respective firms, thus providing reliable and accurate responses. A total of 450 questionnaires were distributed, with 332 completed surveys returned, resulting in a response rate of 73.78%. After eliminating 62 invalid questionnaires, 270 valid responses remained, yielding an effective response rate of 81.33%.

Among the 270 valid responses, Sharia financial firms with fewer than 50 employees, between 50 and 149 employees, 200 to 300 employees, and over 300 employees represented 18.28%, 20.90%, 22.11%, and 38.71% of the sample, respectively. In terms of the age of the Shariah financial firms, those less than 5 years, 5–8 years, 9–12 years, and more than 12 years made up

10.30%, 20.01%, 33.70%, and 35.90% of the sample, respectively. Regarding the demographics of the respondents, 69.82% were male, and 30.18% were female. As for educational background, 73.53% of the participants held a bachelor's degree, while 36.07% did not. The sample also included 61.79% supervisors and 38.21% managers.

3.2 Measurement

This study examined three main variables: Shariah financial performance, green environmental innovation, and corporate culture. To measure these variables, a five-point Likert scale was used, with 1 representing "strongly disagree" and 5 indicating "strongly agree."

The corporate culture measurement scale used in this study was based on the frameworks developed by Cameron and Quinn (2011) and Gürlek and Koseoglu (2021), consisting of 10 items in total. These items were distributed across four types of corporate culture: “clan culture, adhocracy culture, hierarchy culture, and market cultures” (Cameron and.Quinn., 2011; p. 21), with two items assigned to each category. For example, statements related to clan culture included “Loyalty and trust keep our company united.” In the case of adhocracy culture, an example statement is “Goal fulfilment and the search for success keeps our company united.” For hierarchy culture, a statement might be “Our firm is a place which stands out because of structure and order,” and for market culture a typical statement is “In our company, success is defined by technological and service innovations.”

The environmental innovation measurement scale used in this study was adapted from the work of Singh *et al*. (2020), comprising 9 items in total. These items were categorized into three groups: green organizations (three items), green processes (three items), and green products (three items). For example, a statement related to green organizations might be "Our firm's management often uses novel management systems to manage green environmental innovation." A statement for green processes could be "Our firm often updates innovatively manufacturing processes to protect against contaminations." Finally, for green products, an example statement would be "Our firm often emphasizes on developing new green products through new technologies to easily recycle their components."

To assess financial performance, this study utilized a scale developed by Wang (2019) and Menne *et al*. (2022), which included three key items. Examples of the items include: " Compared with major competitors, the sales growth of our firm is higher," "Compared with major competitors, the market share of our firm is higher," and "Compared with major competitors, the investment return rate of our firm is higher."

3.3 Common method bias

To mitigate the risk of common method bias (CMB), both procedural and statistical approaches were employed in line with best practices for PLS-SEM (Kock, 2023). Procedurally, respondent anonymity was assured, scale items were dispersed across different sections of the instrument, and no ambiguous or leading questions were included. Statistically, full collinearity assessments were conducted to detect potential method bias. As recommended by (Kock and Lynn, 2012), variance inflation factors (VIFs) for all constructs were examined using SmartPLS. The results showed that all full collinearity VIF values were below the threshold of 3.3, indicating that CMB was not a significant threat to the integrity of the data. This approach is considered more appropriate for PLS-SEM than traditional Harman's single-factor test or CFA-based assessments, which are more suited to covariance-based SEM. The use of full collinearity diagnostics provides a robust indication that multicollinearity and method bias are not present at problematic levels in this study.

4. Findings and discussion

Prior to performing the SEM analysis, this study first assessed the measurement model, as it was crucial for assessing the composite reliability (CR), average variance extracted (AVE), and the overall reliability of the variables involved. To gauge reliability, both composite reliability and Cronbach's alpha (CA) were employed. The results of the confirmatory factor analysis revealed that the factor loadings for all items exceeded 0.70 (Hair *et al.*, 2020), confirming the good convergent validity of the variables (see Table I). Additionally, this study assessed discriminant validity using both the heterotrait-monotrait (HTMT) ratio and the Fornell-Larcker criterion (Fornell and Larcker, 1994). As shown in Table II, the HTMT ratio values are all below the threshold of 0.90.

[Insert Table 1 here]

[Insert Table 2 here]

The findings from the model estimation reveal several results regarding the impact of corporate culture on green environmental innovation. Clan culture was found a positive impact on green organizations (β = .107; t-value = 7.142; $p < .01$), and green products (β = .157; t-value = 12.614; $p < .01$), but it did not significantly impact green processes (β = .062; t-value = .342; $p > .05$). As a result, hypotheses H1 and H3 were Accepted, while H2 was not accepted. In contrast, adhocracy culture positively influences green organizations (β = .128; t-value = 10.174; $p < .05$), green processes (β = .267; t-value = 9.231; $p < .05$), and green products (β = .317; t-value = 19.172; $p < .01$) validating hypotheses H4, H5, and H6 were accepted. On the other hand, hierarchical culture negatively impacts green organizations ($\beta = -.247$; t_{value} = 15.295; $p < .05$) and green processes ($\beta = -.117$; t-value = 2.872; $p < .01$), and green products ($\beta = -.221$; t-value = 3.218; $p < .05$), meaning that H7, H8, and H9 were accepted. Market culture positively impacts green organizations (β = .257; t-value = 12.872; $p < .01$), green processes (β = .372; t-value = 21.614; $p < .01$), and green products (β = .347; t-value = 17.524; $p < .01$), confirming hypotheses H10, H11, and H12 were Accepted.

To identify the magnitude of multicollinearity, variance inflation factor (VIF) is a widely used metric. As a recently revised rule of thumb, the VIF values of the constructs in a model should be below 3.0 (Hair Jr et al., 2020). VIF values presented in Table 2 are well below the upper threshold, thus, enabled us to proceed further in structural model.

Additionally, the results presented in Table 3 highlight that green organizations (β = .342; t-value = 20.674; $p < .01$), green processes (β = .172; t-value = 9.264; $p < .01$), and green products (β = .312; t-value = 25.764; $p < .05$) all significantly contribute to advancing Sharia financial performance, thus hypotheses H13, H14, and H15 were accepted. The final model of the study is illustrated in Figure 2.

[Insert Table 3 here]

[Insert Figure 2 here]

The objective of this study is to examine the relationships between corporate culture, green environmental innovation, and Sharia financial performance, focusing on a sample of 270 Shariah financial institutions. Using a partial least squares structural equation model (PLS-SEM), the research aims to analyze how these factors interact and their impact on the financial outcomes of Sharia financial institutions.

Clan culture has a positive influence on green environmental innovation, while hierarchy culture tends to hinder it. Both clan and hierarchy cultures primarily focus on internal aspects of a company, and since green organizations innovation is also driven by internal factors, these cultural types impact it more than other forms of innovation, such as green processes or green products. Clan culture fosters an environment of trust and openness to change, which encourages green organizational innovation (Zhao *et al.*, 2024; Yan *et al.*, 2025). On the other hand, hierarchy culture, which emphasizes stability, control, and structure, creates a more rigid environment that can stifle innovation in this area.

Adhocracy culture and market culture both play a beneficial role in driving the green environmental innovation dimensions. Adhocracy cultures are characterized by a focus on innovation, external engagement, and promoting autonomy, which often encourages companies to take more risks in their approach to green environmental innovations (Gürlek and Koseoglu, 2021). Contrary to the findings of Gürlek and Koseoglu (2021), this study found a positive relationship between market culture and green environmental innovation. Market cultures are centered around competition, maximizing market share, and enhancing customer satisfaction (Roscoe *et al.*, 2019). As consumer demand for green products continues to rise, the influence of market culture on promoting green environmental innovation becomes increasingly crucial.

Green organizations, green processes, and green products all contribute positively to the Sharia financial performance, aligning with the perspectives of Wang (2019) and Padilla-Lozano and Collazzo (2022). Their arguments, grounded in resource-based theory, suggest that environmental innovations play a crucial role in developing a firm's unique dynamic capabilities. These capabilities, once internalized, become valuable strategic assets for the company. By alleviating stakeholder pressure and enhancing the company's capacity for learning and innovation, green innovations can help reduce operational costs and provide a competitive advantage, ultimately boosting Sharia financial performance. Additionally, green environmental innovation helps reduce resource usage and energy consumption (Zhou *et al.*, 2021; Tariq *et al.*, 2019), further supporting the Sharia financial performance.

4.1 Theoretical implication

While this study is grounded in the Indonesian context, the findings offer noteworthy associational insights that may have relevance for Islamic financial institutions in emerging markets. In the Indonesian sample, the observed associations between adhocracy and market cultural orientations with higher levels of green environmental innovation suggest that organizational cultures valuing experimentation and responsiveness may correspond with more extensive implementation of green practices (Roscoe *et al.*, 2019). Although not tested here, it may be useful for future research to explore whether similar institutional relationships exist in other emerging-market regions, such as Africa, where Islamic finance is developing rapidly (Jan *et al.*, 2022). In those contexts, adapted organizational culture frameworks may help generate context-specific hypotheses about how culture, innovation and performance are intertwined. Moreover, our results hint at the role of culture as a strategic organizational resource in the sustainability agenda of Shariah-compliant institutions. Specifically, in environments where regulatory, stakeholder and ethical demands around sustainability are becoming more salient (Padilla-lozano and Collazzo, 2022), corporate culture may act as a contextual enabler of green innovation rather than merely a background variable. By emphasizing flexibility, innovation and customer orientation, financial institutions may better align their practices with evolving sustainability imperatives. On the other hand, more control-oriented (hierarchical) cultures may exhibit less favorable associations with green innovation in the studied context (Gürlek and Koseoglu, 2021).. These findings contribute to the emerging literature on sustainable finance in Shariah-compliant settings by framing culture as a potential antecedent of environmentally oriented innovation.

4.2 Practical implication

From a managerial perspective within Indonesian Islamic financial institutions, the results suggest that leaders may wish to reflect on the alignment of human-resource practices, corporate culture and sustainability goals. Embedding sustainability into employee training, performance evaluations and reward systems may support the development of green organizations (Arici and Uysal, 2021). . For policymakers and regulators, the findings imply that regulatory incentives for sustainability may be more effective when coupled with measures that encourage corporate cultural change — for example, promoting flexible, innovation-friendly cultures rather than solely mandating compliance (Farzaa *et al.*, 2021). Lastly, the results highlight opportunities for future comparative research across regions. Researchers could examine whether the associations identified in this Indonesian study hold in other geographic and regulatory contexts (e.g., African markets) to generate insights on region-specific pathways for sustainable finance (Vasileiou *et al.*, 2022).. Such future work would strengthen the external validity of the cultural-innovation-performance link in Shariah-compliant financial institutions.

4.3 Study limitations

This study has several limitations. First, it focused only on Shariah-compliant financial institutions in three Indonesian provinces, which may limit the generalizability of the findings. Broader geographical coverage would provide more representative insights. Second, firm-level characteristics such as size, age, or governance were not considered, though these factors may moderate the impact of culture and innovation on performance. Third, the reliance on self-reported survey data raises the risk of response bias; future studies could combine surveys with secondary or qualitative data. Fourth, the cross-sectional design restricts causal inference, suggesting that longitudinal approaches are needed.

5. Conclusion

This study aims to understand how various factors influence the integration of green innovation into business practices and their ultimate impact on financial performance, with a particular focus on Sharia financial outcomes. This research provides practical insights into managing green environmental innovation. It emphasizes the importance of cultivating organizational cultures that support creativity and responsiveness to market dynamics—particularly adhocracy and market-oriented cultures—which positively influence green innovation. Firms should also avoid rigid structures and instead promote flexibility, collaboration, and experimentation. Investing in green initiatives across organizations, processes, and products, while leveraging external knowledge and optimizing internal resources, can enhance both innovation and Sharia financial performance.

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Table 1. Reliability results

Variable	Item	Factor loading	AVE	Composite reliability	α	VIP
Clan culture	CC1 CC2	0.735 0.762	0.678	0.764	0.891	1.67
Adhocracy culture	AC1 AC2	0.843 0.812	0.619	0.814	0.809	1,89
Hierarchy culture	HC1 HC2	0.867 0.775	0.709	0.764	0.801	1.58
Market cultures	MC1 MC2	0.723 0.883	0.679	0.801	0.804	1.59
Green organizations	GO1 GO2 GO3	0.787 0.878 0.878	0.677	0.821	0.781	1.78
Green processes	GPRI1 GPRI2 GPRI3	0.876 0.845 0.867	0.719	0.798	0.765	1.87
Green products	GPDI1 GPDI2 GPDI3	0.798 0.878 0.876	0.609	0.791	0.812	1.38
Sharia financial performance	SFP1 SFP2 SFP3	0.889 0.890 0.797	0.721	0.826	0.788	1.86

Note of abbreviations: CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market cultures; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance.

Table 2. Validity results

Variables	CC	AC	HC	MC	GO	GPR	GPD	SFP
Clan culture	**0.785**							
Adhocracy culture	0.757	**0.864**						
Hierarchy culture	0.741	0.811	**0.872**					
Market cultures	0.712	0.744	0.788	**0.790**				
Green organizations	0.577	0.731	0.655	0.705	**0.718**			
Green processes	0.545	0.651	0.632	0.689	0.689	**0.790**		
Green products	0.458	0.601	0.612	0.576	0.601	0.687	**0.789**	
Sharia financial performance	0.441	0.586	0.544	0.543	0.574	0.598	0.689	**0.803**

Note of abbreviations: CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market cultures; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance.

Table 3. Path coefficients results

Hypotheses	Paths	Standardize (β)	t-value	ρ-value	Discission
H1	CC → GO	.107	7.142	0.004	Accepted
H2	CC → GPR	.062	1.342	0.259	Not Accepted
H3	CC → GPD	.157	12.614	0.003	Accepted
H4	AC → GO	.128	10.174	0.012	Accepted
H5	AC → GPR	.267	9.231	0.021	Accepted
H6	AC → GPD	.317	19.172	0.001	Accepted
H7	HC → GO	−.247	3.541	0.005	Accepted
H8	HC → GPR	−.117	2.872	0.006	Accepted
H9	HC → GPD	−.221	3.218	0.012	Accepted
H10	MC → GO	.257	12.872	0.000	Accepted
H11	MC → GPR	.372	21.614	0.000	Accepted
H12	MC → GPD	.347	17.524	0.000	Accepted
H13	GO → SFP	.342	20.674	0.000	Accepted
H14	GPR → SFP	.172	9.264	0.006	Accepted
H15	GPD → SFP	.182	5.764	0.012	Accepted

Note of abbreviations: CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market culture; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance.

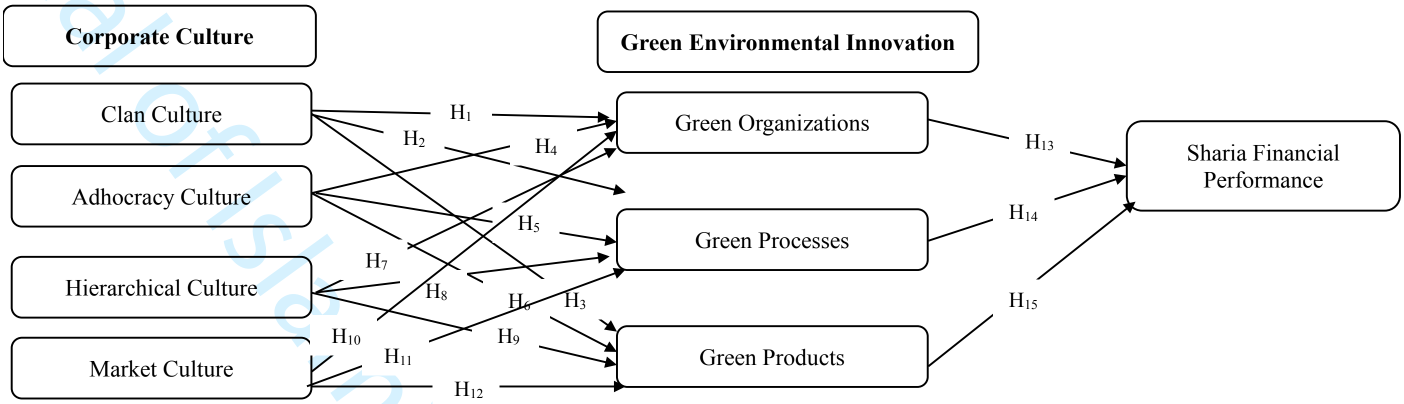

Figure 1. Theoretical model

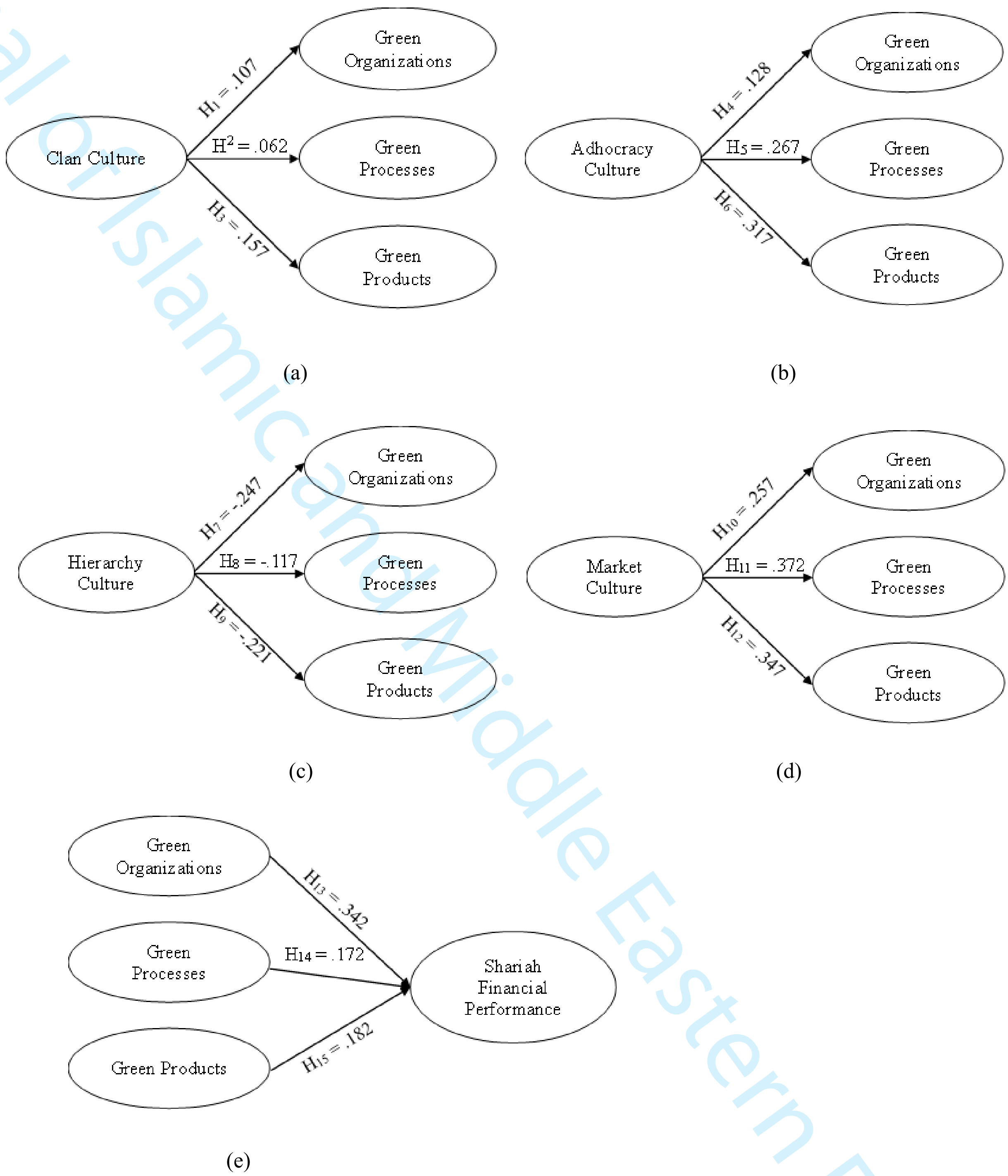

Figure 2. Structural model

2. Bukti Konfirmasi Review dan Hasil Review

(07 Januari 2026)

International Journal of Islamic and Middle Eastern Finance and Management - Decision on Manuscript ID IMEFM-10-2025-0777

1 pesan

International Journal of Islamic and Middle Eastern Finance and Management <onbehalfof@manuscriptcentral.com>
Balas Ke: aun.raza@lums.edu.pk
Kepada: soleh@unilam.ac.id, solehlatansa66@gmail.com

7 Januari 2026 pukul 02.26

06-Jan-2026

Dear Dr. Soleh Soleh:

Manuscript ID IMEFM-10-2025-0777 entitled "Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance" which you submitted to the International Journal of Islamic and Middle Eastern Finance and Management, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The editor and reviewer(s) have recommended major revisions to the submitted manuscript, before it can be considered for publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript. Please note that while I am extending an invitation for revision, this invitation does not imply or guarantee acceptance for publication. Given that the comments provided are substantial, it is crucial that you address them with the necessary rigor and attention. Should you believe that you are unable to satisfactorily resolve these issues, I would advise you to decline the invitation to revise and consider submitting your manuscript to another appropriate journal.

To revise your manuscript, log into https://mc.manuscriptcentral.com/imefm and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

You will be unable to make your revisions on the originally submitted version of the manuscript. Instead, revise your manuscript using a word processing program and save it on your computer. Please also highlight the changes to your manuscript within the document by using the track changes mode in MS Word or by using bold or coloured text.

Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre. The deadline for uploading a revised manuscript is 07-Apr-2026 from receiving this email. If it is not possible for you to resubmit your revision within this timeframe, we may have to consider your paper as a new submission.

When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

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Once again, thank you for submitting your manuscript to the International Journal of Islamic and Middle Eastern Finance and Management and I look forward to receiving your revision.

Sincerely,
Dr. Syed Aun R. Rizvi
Editor-in-Chief, International Journal of Islamic and Middle Eastern Finance and Management
aun.raza@lums.edu.pk, aun.rizvi@gmail.com

Reviewer(s)' Comments to Author:

Reviewer: 1

Recommendation: Minor Revision

Comments:
Yes, a few suggestions are mentioned below.
Add references justifying the methodology and concept of Islamic finance. Suggested reads are mentioned below.
1. doi:10.21511/bbs.20(1).2025.10
2. https://doi.org/10.1080/23322039.2022.2114172
3. https://doi.org/10.1016/j.heliyon.2024.e32739
4. DOI 10.1108/IJOES-03-2023-0044
5. https://doi.org/10.3390/su16167240

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: yes

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: yes

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: yes

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: yes,clearly presented

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: yes

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: yes

Reviewer: 2

Recommendation: Reject

Comments:
Please refer to my comments above.

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: The paper's most significant claim that green innovation leads to "Shariah Financial Performance" is under-theorized. Most researchers struggle to define how SFP differs empirically from conventional ROA or ROE. If the study uses standard accounting metrics but calls them "Shariah" simply because the banks are Islamic, the originality is superficial. Does the paper measure Maqasid al-Shariah achievement (e.g., social justice, wealth distribution, environmental preservation) through a distinct index, or is it just using net profit margins? If it is the latter, the "Shariah" label is a branding exercise rather than a scientific distinction.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: The manuscript exhibits a notable lack of depth in specialized literature that would bridge the gap between general management and Islamic-specific organizational behavior. While the paper introduces Shariah concepts like khalifah and maslahah, it relies on generalized Islamic finance texts rather than engaging with the robust, specialized body of literature on Islamic Work Ethics (IWE) or Shariah-based organizational behavior. This omission is critical because the study attempts to redefine corporate culture types within a religious framework without referencing existing debates on how Islamic values might reshape or contradict Western cultural archetypes like "Market" or "Hierarchy."

Furthermore, the paper overlooks significant work concerning the unique nature of innovation in the service and financial sectors. Much of the cited "green innovation" literature is rooted in manufacturing and product design, which does not perfectly translate to the intangible, contract-based "products" of an Islamic bank. More critically, the study fails to reference established Maqasid al-Shariah performance indices. By ignoring these rigorous, faith-based performance measurement frameworks, the authors miss an opportunity to distinguish their study from conventional financial performance research, leaving the "Shariah" component of the paper's title theoretically underdeveloped.

Finally, while the paper identifies a contradiction with previous findings regarding "Market" culture and environmental innovation, it does not sufficiently explore the literature that explains why such a divergence might occur in the Indonesian context. The absence of discussion on the regulatory landscape of Indonesian Islamic banking—specifically the role of Shariah Supervisory Boards—suggests a missed opportunity to contextualize the literature within the specific institutional pressures of the region. The authors must move beyond a "sprinkling" of religious terms and engage more deeply with the specialized literature that links Islamic ethics directly to organizational innovation and non-conventional performance metrics.

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: 1) The research design utilizes a survey of 270 managers across three Indonesian provinces and employs Partial Least Squares Structural Equation Modelling (PLS-SEM) for analysis. While the response rate is high (81.33%), the study faces a substantial risk of Common Method Bias (CMB) because it relies entirely on self-reported survey data from a single respondent per firm for both independent and dependent variables. Although the authors performed a full collinearity assessment to mitigate this, the subjective nature of measuring "Shariah financial performance" through manager perceptions, rather than objective financial statements or audited ESG reports, limits the empirical weight of the findings.

2) The categorization of green innovation into organizational, process, and product dimensions is theoretically sound but may suffer from overlap in a service-oriented sector like banking. For instance, a "green process" like digitalizing workflows often results in a "green product" like paperless banking, making the statistical distinction between these dimensions potentially fragile. Furthermore, the paper’s critique of "Hierarchy" culture as a hindrance to innovation overlooks the essential role of strict hierarchical Shariah governance (e.g., Shariah Supervisory Boards) in ensuring the legitimacy of those very innovations. The authors should address this paradox: can an Islamic bank be truly "innovative" without the "hierarchy" that guarantees its religious compliance?

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: The authors provide the necessary metrics for convergent and discriminant validity, such as Average Variance Extracted (AVE) and Heterotrait-Monotrait (HTMT) ratios, but the transition from statistical significance to practical banking reality is abrupt. For instance, the finding that Adhocracy and Market cultures are primary drivers of green innovation is presented as a statistical "win," but the analysis fails to critically interrogate the friction between a profit-driven "Market" culture and the altruistic, stewardship-based requirements of Shariah law. By treating these path coefficients as self-explanatory, the analysis overlooks the complex internal tensions managers likely face when balancing aggressive market competition with the long-term ethical mandates of Maslahah.

Furthermore, the analysis of "Hierarchy" culture as a purely negative force in the innovation process represents a significant analytical blind spot. In a highly regulated industry like Islamic finance, the "Hierarchy" culture often manifests as the Shariah Supervisory Board (SSB) and strict compliance protocols. The results characterize this rigidity as a barrier to green innovation without considering that in an Islamic context, "innovation" without "hierarchy" (compliance) is essentially void. The analysis would be much more sophisticated if it explored whether Hierarchy acts as a "moderator" that ensures green products are actually Shariah-compliant, rather than just treating it as a linear "hindrance." This lack of nuanced interpretation suggests that the results were analyzed through a generic management lens rather than one tailored to the specificities of the Islamic financial sector.

Also, the authors fall short of providing a truly integrated synthesis. The "Shariah" element, which is the paper's primary differentiator, remains peripheral in the final discussion. The conclusion that green innovation enhances Shariah financial performance is based on traditional growth metrics like market share and investment returns, which creates a circular logic: the banks are Shariah-compliant because they are Islamic banks, and their performance is "Shariah performance" simply because they grew. A critical conclusion should have bridged the gap between the Resource-Based View and Maqasid al-Shariah, explaining how environmental stewardship (as a resource) specifically fulfills a religious obligation that traditional banks do not share.

Finally, the paper concludes with a set of practical implications that are somewhat generic, such as suggesting that managers should "foster an innovative culture." This lacks the bite required for a high-impact publication. A more critical and useful conclusion would have addressed the "Dark Side" of their findings—for example, how an over-reliance on "Market" culture might lead to "Greenwashing" in Islamic banks to meet consumer demand without substantive environmental change. Ultimately, while the elements of the paper are tied together by a clear logical thread, the depth of that thread is shallow; it confirms existing management cliches within a new context without challenging or expanding the theoretical boundaries of how Shariah ethics redefines the very nature of corporate culture and performance.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: The manuscript identifies implications that are theoretically aligned with its findings but remains largely superficial in bridging the gap between academic correlation and the complex realities of Islamic financial practice. While the "business case" for green innovation is clearly articulated, suggesting that managers prioritize Adhocracy and Market cultures to drive performance, the paper fails to address the significant economic trade-offs, such as the high cost of capital for green initiatives or the competitive pressures of the dual-banking system in Indonesia. Furthermore, by reducing the profound ethical imperative of Maslahah (public interest) to a mere driver of "market share" and "reputation," the study risks instrumentalizing Shariah values for commercial gain rather than offering a roadmap for genuine societal transformation. To be truly impactful, the research needed to move beyond generic management advice and propose specific, Shariah-compliant "Green KPIs" or policy recommendations that could help regulators and practitioners navigate the friction between rigorous religious compliance and the aggressive demands of sustainable innovation.

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: Adequate

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*** How-to-submit-a-revision.pdf**
669K

3. Bukti Konfirmasi Submit Revisi dan Artikel Yang Diresubmit (16 Januari 2026)

International Journal of Islamic and Middle Eastern F
and Manag

Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance

Journal:	*International Journal of Islamic and Middle Eastern Finance and Management*
Manuscript ID	IMEFM-10-2025-0777.R1
Manuscript Type:	Research Paper
Keywords:	Green environmental innovation, Clan, Adhocracy, Hierarchy, Market, Shariah financial performance

Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance

Abstract

Purpose

This study explores how corporate culture influences green environmental innovation and assesses its impact on Shariah financial performance within Islamic financial institutions.

Design/methodology/approach

A survey of 270 managers from institutions in Banten, Jakarta, and West Java, Indonesia, was conducted. Data were analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to test relationships between four culture types—clan, adhocracy, hierarchy, and market—green innovation dimensions (organizational practices, processes, and products), and financial performance.

Findings

The results indicate that adhocracy and market cultures significantly promote green innovation, while clan culture has a weaker yet positive effect. Conversely, hierarchy culture negatively affects all innovation dimensions. Green organizational practices, processes, and products positively contribute to Shariah financial performance, suggesting that flexible and market-oriented cultures help align sustainability with financial objectives.

Practical implications

From a practical perspective, managers are encouraged to foster innovation-friendly environments, align market-driven incentives with environmental goals, and revise rigid internal structures. Recommended mechanisms include cross-functional green teams, eco-compliance key performance indicators, and integrating *maqashid-al-shariah* principles into environmental strategies.

Originality/value

This study advances the Islamic finance and sustainability literature by empirically connecting culture, innovation, and performance, and offers practical strategies for embedding environmental innovation within Shariah-compliant financial operations.

Keywords: Green environmental innovation, Clan, Adhocracy, Hierarchy, Market, Shariah financial performance

1. Introduction

Green environmental innovation has the potential to make processes and products more energy efficient and reduce the use of green materials and energy, which is why many countries have laws that encourage businesses to use sustainable methods. However, despite these efforts, several firms have encountered significant challenges. Consequently, they have faced difficulties in attaining what padilla-Lozano and Collazzo (2022) refer to as a "win-win" scenario, wherein environmental enhancements coincide with financial prosperity. This failure to generate both green and financial benefits has dampened some firms' motivation to pursue green environmental innovation (Roscoe *et al.*, 2019). This challenge becomes even more complex in Shariah-compliant financial institutions, where financial success is evaluated not only in terms of profitability but also in relation to ethical value creation and compliance with Islamic principles (Akhter *et al.*, 2023).

In Indonesia, the rise of Shariah-compliant financial institutions has added new dimensions to discussions around sustainability. These institutions operate under Islamic principles that promote ethical investment, environmental stewardship (*khalifah*), and social responsibility (*maslahah*) (Julia and Kassim, 2020). Accordingly, "Shariah Financial Performance" (SFP) cannot be understood as a mere replication of conventional accounting profitability (e.g., ROA or ROE), but rather as financial outcomes generated through activities that are consistent with Shariah objectives, ethical constraints, and stakeholder welfare (Khan *et al.*, 2022; Khan *et al.*, 2024). While previous studies have explored the role of regulations, stakeholder influence, and managerial orientation in driving green innovation (Arici and Uysal, 2021; Syamlan *et al.*, 2025), the theoretical mechanisms explaining how green environmental innovation contributes specifically to Shariah Financial Performance remain insufficiently articulated, particularly inemerging Islamic financial markets (Gürlek and Koseoglu, 2021).

From a theoretical standpoint, green environmental innovation may enhance Shariah Financial Performance through multiple interrelated channels. First, drawing on the Resource-Based View (RBV), green organizational practices, processes, and products constitute firm-specific capabilities that can improve operational efficiency, reduce long-term costs, and strengthen sustainable competitive advantage while remaining consistent with Shariah constraints (Barney, 2001; Liao, 2016; Gürlek and Koseoglu, 2021). Second, green innovation strengthens institutional legitimacy among regulators, customers, and Shariah supervisory stakeholders by signaling adherence to ethical investment principles, environmental accountability, and responsible governance (Julia and Kassim, 2020; Padilla-lozano and Collazzo, 2022). Third, green innovation operationalizes key *maqasid al-shariah* objectives—particularly the protection of wealth (*hifz al-mal*), life (*hifz al-nafs*), and the environment (*hifz al-bi'ah*)—thereby aligning economic performance with Islamic ethical imperatives and sustainability-oriented value creation (Chapra, 2016; Alhammadi *et al.*, 2022).

One area that remains underexplored is the role of corporate culture in improving environmental innovation (Iqbal, Akhtar, *et al.*, 2021). Corporate culture, as a system of shared values and norms, plays a critical role in influencing organizational behavior and strategic decision-making. Despite its significance, limited research has been conducted to understand how different types of corporate culture—such as clan, adhocracy, hierarchy, and market cultures—drive the adoption and effectiveness of green environmental innovation. Furthermore, existing studies often treat financial performance in Islamic institutions as indistinguishable from conventional accounting outcomes, without clarifying whether financial improvements are achieved through Shariah-aligned value creation or merely labeled "Islamic" due to institutional identity.

In this study, Shariah Financial Performance is conceptualized as relative financial performance achieved by Shariah-compliant institutions through business activities that are consistent with Islamic ethical principles and sustainability objectives (Julia and Kassim, 2020; Chapra, 2016). While the empirical indicators employed rely on comparative financial performance measures commonly used in prior Islamic finance research—such as sales growth, market share, and investment returns relative to competitors— (Wang, 2019; Menne *et al.*, 2022), these indicators are interpreted within a Shariah governance framework in which profit generation is constrained by ethical investment screening, risk-sharing principles, and environmental responsibility (Hassan and Aliyu, 2018; Avdukic and Asutay, 2025). Thus, the "Shariah" dimension in this study does not merely reflect institutional labeling, but the performance implications of operating under Shariah governance and sustainability-oriented constraints, consistent with prior empirical approaches in Islamic finance literature (Julia and Kassim, 2020; Jan *et al.*, 2022).

This study addresses these gaps by investigating the influence of organizational culture on green environmental innovation, and how different dimensions of green innovation relate to Shariah financial performance within Indonesia's Islamic banking sector. By integrating the Competing Values Framework (Cameron and Quinn., 2011) and the Resource-Based View (Barney, 2018) with *maqasid al-shariah* principles, this study aims to provide a culturally grounded and contextually relevant understanding of how green environmental innovation contributes to financially sustainable and ethically compliant performance in Islamic financial institutions.

2. Literature review

Recent studies have increasingly examined the intersection between environmental innovation and Islamic finance in different contexts. For instance, Lee and Isa (2023) found that Shariah-compliant firms in Malaysia adopting ESG practices were able to enhance their market reputation while simultaneously improving financial performance. Similarly, Alghafes et al. (2024) emphasized the importance of ESG-related factors in determining the financial stability of Islamic banks across GCC countries. These studies suggest that Islamic financial institutions are not only pressured by regulatory requirements but also by shifting consumer preferences towards sustainable financial products.

However, much of the existing literature treats sustainability in Islamic finance as an extension of conventional ESG frameworks, without sufficiently grounding the analysis in Islamic ethical foundations such as Islamic Work Ethics (IWE), Shariah-based organizational behavior, and the *maqasid al-shariah* (Dusuki and Abdullah, 2007; Beekun and Badawi, 2005; Ali and Owaihan, 2008). As a result, Islam is often employed symbolically rather than analytically, limiting its explanatory power in understanding how sustainability-oriented strategies translate into Shariah Financial Performance (Hussain Khan *et al.*, 2021; Hassan and Aliyu, 2018).

2.1 Corporate culture

Corporate culture consists of a set of shared fundamental beliefs and assumptions developed by an organization to address internal cohesion and adapt to external changes (Bashir, 2022; Wang *et al*., 2021; Provasnek *et al*., 2017; Mady *et al*., 2023). These core assumptions are not only widely accepted by the organization's members but are also continuously passed on to newcomers (Schein, 2016). In addition, corporate culture encompasses the values, norms, and assumptions that guide decision-making and actions within the organization (Barney, 2001; Zheng *et al*., 2023; Farzaa *et al*., 2021; Arici and Uysal, 2021). Cameron and Quinn. (2011) proposed a framework that classifies organizational culture into four distinct types, using two main dimensions: the balance between flexibility and stability, and the focus on internal versus external concerns (Nazarian *et al*., 2017). For this study, Cameron and Quinn's (2011) classification will be adopted, dividing corporate culture into four categories: clan, adhocracy, hierarchy, and market cultures.

Within Islamic financial institutions, corporate culture is additionally shaped by Islamic Work Ethics (IWE), which emphasize honesty, social responsibility, moderation, and accountability to God (*taqwa*) (Beekun and Badawi, 2005; Ali and Owaihan, 2008). These ethical foundations influence organizational behavior by aligning economic objectives with moral obligations, thereby affecting how employees perceive innovation, competition, and environmental responsibility (Yousef, 2001; Murtaza *et al.*, 2016). Shariah-based organizational behavior thus provides an important analytical lens for understanding how cultural values interact with strategic decisions in Islamic banking contexts (Dusuki and Abdullah, 2007; Kuanova *et al.*, 2021).

2.2 Green environmental innovation

Green environmental innovation involves creating and applying new or improved methods, systems, technologies, or products designed to reduce or prevent damage to the environment (Farzaa *et al*., 2021; Iqbal *et al*., 2021). Green environmental innovation can be categorized into three dimensions: green processes, green organizations, and green products (Zhou *et al.*, 2021). In the context of Islamic banking, green environmental innovation should be reframed as *maqasid*-driven sustainable Islamic finance rather than manufacturing-based environmental practices (Dusuki and Abdullah, 2007; Kuanova *et al.*, 2021). Unlike manufacturing firms, Islamic banks primarily engage in financial intermediation, risk-sharing, and asset-backed financing (Hassan *et al.*, 2019). Accordingly, green innovation in Islamic banking manifests through sustainable financing instruments, environmentally responsible investment screening, green sukuk, ethical credit allocation, and organizational policies that integrate environmental risk into Shariah-compliant decision-making ((Oladapo, 2024; Alghafes *et al.*, 2024).

2.3 Clan culture and green environmental innovation

Clan culture is characterized by a focus on building strong interpersonal relationships, providing mutual support, and fostering a sense of harmony and collaboration within the organization (Cameron and Quinn., 2011). From the perspective of Islamic Work Ethics, clan culture reinforces moral commitment, knowledge sharing, and collective accountability, which are critical for embedding sustainability-oriented behaviors into daily organizational practices

(Beekun and Badawi, 2005; Murtaza *et al.*, 2016). Such ethical cohesion facilitates *maqasid*-driven innovation by encouraging employees to view environmental responsibility as a shared moral obligation rather than an externally imposed requirement (Hassan *et al.*, 2019). Consequently, clan culture can support green organizational practices and environmentally conscious product and service development in Shariah-compliant institutions (Yousef, 2001).

Clan culture emphasizes a warm, friendly work environment, where leaders act as mentors or parental figures, echoing the Islamic concept of exemplary leadership (*qudwah hasanah*). Trust is foundational, allowing for open communication between managers and employees. This culture cultivates an environment where knowledge is freely exchanged, and employees actively learn from one another, facilitating organizational knowledge transfer (Vasileiou *et al.*, 2022; Parrilli *et al.*, 2023). Within an Islamic context, this is further reinforced by the religious emphasis on mutual cooperation (*ta'awun*) and collective responsibility, which are essential for building cohesive teams committed to both ethical and environmental objectives.

Environmental policies, stakeholder pressure, resource availability, and managerial cognition interact with the relational structure of clan culture to create enabling conditions for green environmental innovation (Lee and Isa, 2023; Isa and Lee, 2020; Kwan *et al.*, 2018). Based on the above discussion, the following hypotheses are proposed:

H_1. Clan culture influences green organizations.

H_2: Clan culture influences green processes.

H_3: Clan culture influences green products.

2.4 Adhocracy culture and green environmental innovation

Adhocracy culture prioritizes creating an environment that fosters innovation, embraces change, and encourages individual initiative and independence (Mohsni *et al.*, 2023; Cameron and Quinn., 2011). Within this culture, organizations aim to build a dynamic atmosphere where challenge, risk-taking, and creativity are valued, especially in the pursuit of environmental goals (Tariq *et al.*, 2019; Zheng *et al.*, 2023; Lee and Isa, 2023). Given that green organizations, processes, and products often involve high levels of uncertainty and risk, organizations with an adhocracy culture are more inclined to make bold, environmentally innovative decisions. In such an environment, the drive for green environmental innovation typically emerges organically from the organization's members, rather than through formal, structured decision-making processes.

Adhocracy culture enables *maqasid*-driven innovation by allowing Islamic banks to design novel Shariah-compliant financial instruments that support environmental sustainability, such as green sukuk or sustainable financing schemes (Gürlek and Koseoglu, 2021; Aliyu *et al.*, 2017). This alignment between innovation and ethical reasoning strengthens the role of green innovation as a strategic capability rooted in Islamic principles rather than a replication of conventional practices (Dusuki and Asyraf, 2008).

Adhocracy culture is characterized by its ability to tolerate stress and adapt to challenging situations. As environmental regulations become stricter, this type of culture encourages organizations to pursue green organizations, processes, and products in response to external pressures. This adaptability is particularly relevant in Shariah-compliant settings, where firms must respond not only to regulatory demands but also to religious imperatives concerning environmental preservation and social responsibility (*khalifah and amanah*). Accordingly, the following hypotheses are formulated:

H_4. Adhocracy culture influences green organizations.

H_5. Adhocracy culture influences green processes.

H_6. Adhocracy culture influences green products.

2.5 Hierarchical culture and green environmental innovation

The principles of stability and control form the foundation of a hierarchical culture (Cameron and Quinn., 2011). Organizations with a hierarchical culture are typically structured around a clear chain of command and adhere to formal rules and regulations. These companies are led by conservative and risk-averse management styles, with an emphasis on maintaining operational stability and efficiency over the long term (Morgan and Vorhies, 2018). Given the focus on predictability and order within a hierarchy culture, firms are often less inclined to engage in green organizations, processes, and products, as such innovations often come with higher levels of uncertainty and risk, which may conflict with the culture's preference for stability and control.

In Shariah-compliant financial institutions, hierarchical features are often embedded within formal Shariah governance frameworks, including Shariah Supervisory Boards (SSBs), Shariah compliance audits, and layers of procedural review designed to ensure conformity with Islamic legal principles (Muryanto, 2023; Rahim *et al*., 2024). While these structures are essential for safeguarding Shariah compliance and stakeholder trust (Chapra, 2016; Hassan and Aliyu, 2018), excessive procedural rigidity may constrain *maqasid*-oriented innovation by limiting organizational flexibility and experimentation (Cameron and E.Quinn., 2011; Gürlek and Koseoglu, 2021). Accordingly, hierarchical culture in Islamic banks may play a dual role: preserving ethical legitimacy while potentially inhibiting adaptive green innovation when governance mechanisms dominate strategic discretion (Farooqi, 2006). Within such centralized structures, limited autonomy and restricted knowledge sharing may further suppress the collaboration and creativity required for implementing green organizational practices, processes, and products. Thus, the following hypotheses are proposed:

H_7: Hierarchical culture impacts green organizations.

H_8: Hierarchical culture impacts green processes.

H_9: Hierarchical culture impacts green products.

2.6 Market culture and green environmental innovation

Market culture is a results-driven organizational culture that prioritizes competition, focusing on achieving a large market share and enhancing customer satisfaction (Cameron and Quinn., 2011; Nazarian *et al*., 2017). As consumer demand for green products continues to rise, organizations shaped by a market-oriented culture are more likely to pursue green organizations, processes, and products. This drive for innovation is motivated by the desire to satisfy customer preferences and capture a greater share of the market.

However, in the Indonesian Islamic banking context, market-oriented culture operates under strong Shariah governance, regulatory oversight by the Financial Services Authority, and active Shariah Supervisory Boards (SSBs) (Chapra, 2016; Hassan and Aliyu, 2018). These institutional mechanisms constrain purely profit-driven behavior and require that competitive strategies remain aligned with Shariah principles and sustainability mandates.

As a result, market culture in Indonesian Islamic banks may promote green innovation not solely as a competitive tactic, but as a means of achieving regulated, ethically constrained performance that satisfies both market demands and *maqasid al-shariah* objectives (Cameron and Quinn., 2011; Julia and Kassim, 2020). This context helps explain why market-oriented culture may behave differently in Indonesian Islamic banking compared to findings from conventional or non-Islamic settings (Gürlek and Koseoglu, 2021; Jan *et al.*, 2022).

In Shariah-compliant financial institutions, market orientation can be ethically aligned with Islamic principles, particularly when pursued through the lens of *maslahah* (promotion of public benefit) and *amanah* (trustworthiness) (Chapra, 2016; Hassan and Aliyu, 2018). The concept of hisbah—market accountability to ensure fairness, transparency, and the well-being of society—also reinforces the legitimacy of environmentally sustainable practices as part of institutional performance (Hussain Khan *et al.*, 2021; Beekun and Badawi, 2005). Furthermore, the Islamic value of excellence in work (*itqan*) encourages institutions to go beyond minimal compliance and pursue best practices, including sustainability leadership, innovation, and environmental stewardship (*khalifah*) (Beekun and Badawi, 2005). Therefore, the following hypotheses are developed:

H_{10}. Market culture impacts green organizations.

H_{11}: Market culture impacts green processes.

H_{12}: Market culture impacts green products.

2.7 Green environmental innovation and Sharia financial performance

In today's highly competitive business landscape, companies must focus on fostering individual competitiveness, which makes innovation a critical factor for success. Innovation not only helps firms maintain an edge over their competitors, but it also enhances their ability to adapt and thrive, ultimately leading to improved performance. Green organizations, processes, and products, which focus on reducing environmental harm throughout the product lifecycle, represent a key strategy in this context. By implementing such sustainable innovations, firms can gain a market advantage, drive revenue growth, and improve Sharia financial performance (Jan *et al.*, 2022; Rashedul Hasan, 2022).

Green organizations, processes, and products play a pivotal role in optimizing the use of raw materials, minimizing pollutant emissions, and offering a cost-effective advantage. Additionally, it facilitates the creation of superior and more inventive products, which can help distinguish a company from its competitors (Jan *et al.*, 2022). When companies adopt green technologies and develop environmentally friendly products, they often garner positive recognition from governments, consumers, and other stakeholders. This enhanced reputation not only helps businesses expand their market share and improve customer satisfaction but also strengthens their Sharia financial performance (Julia and Kassim, 2020). According to the resource-based view, a company's sustained competitive edge and superior performance arise from its distinct, valuable, scarce, and hard-to-replicate resources and capabilities (Liao, 2016).

From *a maqasid al-shariah* perspective, such innovation contributes directly to the protection of wealth (*hifz al-mal*), life (*hifz al-nafs*), and the environment (*hifz al-bi'ah*), positioning green innovation as an ethical and strategic imperative rather than a purely technical or operational practice (Chapra, 2016; Dusuki and Asyraf, 2008). Thus, green organizations, processes, and products in Islamic finance represent institutional mechanisms through which sustainability objectives are operationalized within Shariah constraints (Zhang *et al.*, 2021; Oladapo, 2024), the following hypotheses are proposed:

H_{13}: Green organizations impact Shariah financial performance.

H_{14}: Green processes impact Shariah financial performance.

H_{15}: Green products impact Shariah financial performance.

Building upon the analysis provided above, we developed the theoretical model shown in Figure I.

[Insert Figure 1 here]

3. Research methodology

3.1 Sample and procedures

This research employed a questionnaire to gather data, employing established scales to ensure robust measurement. To guarantee the validity and reliability of the questions, the study underwent a thorough translation process, which included back-translation and multiple revisions to resolve any inconsistencies or unclear items. Before launching the main study, a pilot test was conducted with 20 Shariah financial institutions in the Banten province. Feedback from this pilot led to refinements in the questionnaire, addressing issues such as unclear wording and ambiguous phrasing.

The formal data collection commenced in March 2024 and continued for one month, targeting Shariah financial firms across Banten, Jakarta, and West Java. Respondents were selected from middle and senior management positions, ensuring that the individuals completing the survey were well-acquainted with the operations of their respective firms, thus providing reliable and accurate responses. Senior and middle managers were chosen deliberately because access to audited financial statements and ESG disclosures is restricted in many Indonesian Islamic banks, and these managers are directly involved in strategic decision-making, Shariah compliance coordination, and sustainability initiatives (Jan *et al.*, 2022).

A total of 450 questionnaires were distributed, with 332 completed surveys returned, resulting in a response rate of 73.78%. After eliminating 62 invalid questionnaires, 270 valid responses remained, yielding an effective response rate of 81.33%. Although the study relies on a single knowledgeable respondent per firm, this approach is consistent with prior organizational-level research in Islamic finance and sustainability, where firm-level variables are commonly captured through informed managerial assessments (Podsakoff *et al.*, 2003; Julia and Kassim, 2020; Jan *et al.*, 2022).

3.2 Measurement

This study examined three main variables: Shariah financial performance, green environmental innovation, and corporate culture. To measure these variables, a five-point Likert scale was used, with 1 representing "strongly disagree" and 5 indicating "strongly agree."

The corporate culture measurement scale used in this study was based on the frameworks developed by Cameron and Quinn (2011) and Gürlek and Koseoglu (2021), consisting of 10 items in total. These items were distributed across four types of corporate culture: “clan culture, adhocracy culture, hierarchy culture, and market cultures” (Cameron and.Quinn., 2011; p. 21), with two items assigned to each category. For example, statements related to clan culture included “Loyalty and trust keep our company united.” In the case of adhocracy culture, an example statement is “Goal fulfilment and the search for success keeps our company united.” For hierarchy culture, a statement might be “Our firm is a place which stands out because of structure and order,” and for market culture a typical statement is “In our company, success is defined by technological and service innovations.”

The environmental innovation measurement scale used in this study was adapted from the work of Singh *et al.* (2020), comprising 9 items in total. These items were categorized into three groups: green organizations (three items), green processes (three items), and green products (three items). For example, a statement related to green organizations might be "Our firm's management often uses novel management systems to manage green environmental innovation." A statement for green processes could be "Our firm often updates innovatively manufacturing processes to protect against contaminations." Finally, for green products, an example statement would be "Our firm often emphasizes on developing new green products through new technologies to easily recycle their components."

To assess Shariah financial performance was measured using a three-item scale adapted from Wang (2019) and Menne *et al.* (2022), which included three key items. Examples of the items include: " Compared with major competitors, the sales growth of our firm is higher," "Compared with major competitors, the market share of our firm is higher," and "Compared with major competitors, the investment return rate of our firm is higher." In this study, Shariah financial performance reflects financial outcomes achieved under Shariah governance constraints, including ethical investment screening, risk-sharing principles, and oversight by Shariah Supervisory Boards (Dusuki and Abdullah, 2007).

3.3 Common method bias

To mitigate the risk of common method bias (CMB), both procedural and statistical approaches were employed in line with best practices for PLS-SEM (Kock, 2023). Procedurally, respondent anonymity was assured, scale items were dispersed across different sections of the instrument, and no ambiguous or leading questions were included. Additionally, independent variables (corporate culture), mediating variables (green environmental innovation), and dependent variables (Shariah financial performance) were positioned in separate sections of the questionnaire to reduce respondents' ability to infer hypothesized relationships. Statistically, full collinearity assessments were conducted to detect potential method bias. As recommended by Kock and Lynn (2012), variance inflation factors (VIFs) for all variables were examined using SmartPLS. The results showed that all full collinearity VIF values were below the threshold of 3.3, indicating that CMB was not a significant threat to the integrity of the data. This approach is considered more appropriate for PLS-SEM than Harman's single-factor test, particularly in models involving formative perceptions and organizational-level variables (Alam *et al.*, 2025;Javed *et al.*, 2024). This approach is considered more appropriate for PLS-SEM than traditional Harman's single-factor test or CFA-based assessments, which are more suited to covariance-based SEM. The use of full collinearity diagnostics provides a robust indication that multicollinearity and method bias are not present at problematic levels in this study.

4. Findings and discussion

Prior to performing the SEM analysis, this study first assessed the measurement model, as it was crucial for assessing the composite reliability (CR), average variance extracted (AVE), and the overall reliability of the variables involved. To gauge reliability, both composite reliability and Cronbach's alpha (CA) were employed. The results of the confirmatory factor analysis revealed that the factor loadings for all items exceeded 0.70 (Hair *et al.*, 2020), confirming the good convergent validity of the variables (see Table I). Additionally, this study assessed discriminant validity using both the heterotrait-monotrait (HTMT) ratio and the Fornell-Larcker criterion (Fornell and Larcker, 1994). As shown in Table II, the HTMT ratio values are all below the threshold of 0.90.

[Insert Table 1 here]

[Insert Table 2 here]

The findings from the model estimation reveal several results regarding the impact of corporate culture on green environmental innovation. Clan culture was found a positive impact on green organizations ($\beta = .107$; t-value = 7.142; $p < .01$), and green products ($\beta = .157$; t-value = 12.614; $p < .01$), but it did not significantly impact green processes ($\beta = .062$; t-value = .342; $p > .05$). As a result, hypotheses H1 and H3 were Accepted, while H2 was not accepted. In contrast, adhocracy culture positively influences green organizations ($\beta = .128$; t-value = 10.174; $p < .05$), green processes ($\beta = .267$; t-value = 9.231; $p < .05$), and green products ($\beta = .317$; t-value = 19.172; $p < .01$) validating hypotheses H4, H5, and H6 were accepted. On the other hand, hierarchical culture negatively impacts green organizations ($\beta = -.247$; t_{value} = 15.295; $p < .05$) and green processes ($\beta = -.117$; t-value = 2.872; $p < .01$), and green products ($\beta = -.221$; t-value = 3.218; $p < .05$), meaning that H7, H8, and H9 were accepted. Market culture positively impacts green organizations ($\beta = .257$; t-value = 12.872; $p < .01$), green processes (β = .372; t-value = 21.614; $p < .01$), and green products (β = .347; t-value = 17.524; $p < .01$), confirming hypotheses H10, H11, and H12 were Accepted.

To identify the magnitude of multicollinearity, variance inflation factor (VIF) is a widely used metric. As a recently revised rule of thumb, the VIF values of the variables in a model should be below 3.0 (Hair Jr et al., 2020). VIF values presented in Table 2 are well below the upper threshold, thus, enabled us to proceed further in structural model.

Additionally, the results presented in Table 3 highlight that green organizations (β = .342; t-value = 20.674; $p < .01$), green processes (β = .172; t-value = 9.264; $p < .01$), and green products (β = .312; t-value = 25.764; $p < .05$) all significantly contribute to advancing Sharia financial performance, thus hypotheses H13, H14, and H15 were accepted. The final model of the study is illustrated in Figure 2.

[Insert Table 3 here]

[Insert Figure 2 here]

The objective of this study is to examine the relationships between corporate culture, green environmental innovation, and Sharia financial performance, focusing on a sample of 270 Shariah financial institutions. Using a partial least squares structural equation model (PLS-SEM), the research aims to analyze how these factors interact and their impact on the financial outcomes of Sharia financial institutions.

Clan culture has a positive influence on green environmental innovation, while hierarchy culture tends to hinder it. Both clan and hierarchy cultures primarily focus on internal aspects of a company, and since green organizations innovation is also driven by internal factors, these cultural types impact it more than other forms of innovation, such as green processes or green products. Clan culture fosters an environment of trust and openness to change, which encourages green organizational innovation (Zhao *et al*., 2024; Yan *et al*., 2025). On the other hand, hierarchy culture, which emphasizes stability, control, and structure, creates a more rigid environment that can stifle innovation in this area.

Adhocracy culture and market culture both play a beneficial role in driving the green environmental innovation dimensions. Adhocracy cultures are characterized by a focus on innovation, external engagement, and promoting autonomy, which often encourages companies to take more risks in their approach to green environmental innovations (Gürlek and Koseoglu, 2021). While this finding aligns with the competitive logic of innovation, it raises an important conceptual tension within the Shariah context. Market culture is typically associated with aggressive competition, performance pressure, and profit maximization, which may appear at odds with Shariah principles emphasizing stewardship (*khalifah*), social welfare (*maslahah*), and long-term ethical responsibility (Cameron and Quinn., 2011; Chapra, 2016; Dusuki and Abdullah, 2007).

Contrary to the findings of Gürlek and Koseoglu (2021), this study found a positive relationship between market culture and green environmental innovation. Market cultures are centered around competition, maximizing market share, and enhancing customer satisfaction (Roscoe *et* *al.*, 2019). As consumer demand for green products continues to rise, the influence of market culture on promoting green environmental innovation becomes increasingly crucial.

Green organizations, green processes, and green products all contribute positively to the Sharia financial performance, aligning with the perspectives of Wang (2019) and Padilla-Lozano and Collazzo (2022). Their arguments, grounded in resource-based theory, suggest that environmental innovations play a crucial role in developing a firm's unique dynamic capabilities. These capabilities, once internalized, become valuable strategic assets for the company. By alleviating stakeholder pressure and enhancing the company's capacity for learning and innovation, green innovations can help reduce operational costs and provide a competitive advantage, ultimately boosting Sharia financial performance. Additionally, green environmental innovation helps reduce resource usage and energy consumption (Zhou *et al.*, 2021; Tariq *et al.*, 2019), further supporting the Sharia financial performance. Importantly, within Islamic financial institutions, this relationship reflects more than conventional financial gains. Green innovation contributes to Shariah financial performance by strengthening ethical legitimacy, reducing environmental risk exposure, and aligning financial outcomes with *maqasid al-shariah* objectives—particularly the protection of wealth, life, and the environment (Zhou *et al.*, 2021; Elkington, 1997; Chapra, 2016; Dusuki and Abdullah, 2007).

This integrated synthesis underscores that Shariah financial performance emerges from the interaction between culture, innovation, and governance (Barney, 2001; Padilla-lozano and Collazzo, 2022). Adhocracy and market cultures drive the form and intensity of green innovation, hierarchy culture safeguards its religious legitimacy, and green innovation acts as the operational bridge linking ethical mandates with financial sustainability (Cameron and Quinn., 2011; Wang, 2019). Rather than treating "Shariah" as a peripheral label, the findings demonstrate that Shariah principles shape both the constraints and opportunities through which innovation affects (Chapra, 2016).

4.1 Theoretical implication

This study contributes to the literature on corporate culture, green innovation, and Shariah financial performance by highlighting the differentiated roles of organizational culture types in shaping sustainability outcomes within Islamic financial institutions (Cameron and Quinn, 2011;Padilla-lozano and Collazzo, 2022). Beyond confirming positive correlations, the findings reveal structural tensions between innovation-driven cultures and Shariah-based ethical mandates, thereby extending existing theories that often assume alignment between market competitiveness and sustainability outcomes (Barney, 2001; Chapra, 2016).

Specifically, the positive role of market culture in driving green innovation should not be interpreted as unconditionally beneficial (Roscoe *et al.*, 2019). From an Islamic governance perspective, an excessive reliance on market-oriented logic may incentivize symbolic or reputational sustainability practices—commonly referred to as "greenwashing"—where Islamic banks adopt visible green labels or products to meet consumer demand without substantive environmental impact (Delmas and Burbano, 2011; Farook et al., 2011). This insight introduces a "dark side" of market culture in Shariah-compliant settings and suggests that cultural drivers of innovation must be analyzed alongside ethical control mechanisms rooted in *maqasid al-shariah* (Chapra, 2016; Dusuki and Abdullah, 2007).

The study also refines the conceptual understanding of hierarchy culture in Islamic finance by repositioning it as an enabling ethical constraint rather than a purely inhibiting force (Chapra, 2016; Dusuki and Abdullah, 2007). While hierarchy may slow exploratory innovation, it plays a critical theoretical role in preserving Shariah legitimacy and preventing ethically misaligned innovation (Hassan and Aliyu, 2018; Dusuki and Abdullah, 2007). This nuanced interpretation advances Islamic management theory by demonstrating that innovation in Islamic finance is contingent upon compliance-based legitimacy, not merely organizational flexibility.

4.2 Practical implication

From a managerial perspective, the findings suggest that Islamic bank leaders should move beyond generic calls to "foster innovation" and instead adopt explicitly Shariah-compliant sustainability governance mechanisms. For instance, banks can develop Green Key Performance Indicators (Green KPIs) aligned with *maqasid al-shariah*, such as the proportion of financing allocated to environmentally sustainable projects, reductions in operational carbon intensity, or the integration of environmental risk screening within Shariah approval processes. These KPIs would allow managers to balance competitive market pressures with substantive environmental accountability. Embedding sustainability into employee training, performance evaluations and reward systems may support the development of green organizations (Arici and Uysal, 2021). Regulators and Shariah Supervisory Boards could formalize Shariah-aligned green innovation guidelines by embedding environmental criteria into Shariah governance frameworks, including mandatory environmental impact assessments for large-scale financing approvals (Dusuki and Abdullah, 2007; Chapra, 2016). Such policies would reduce the risk of greenwashing while supporting authentic *maqasid*-driven innovation.

4.3 Study limitations

This study has several limitations. First, it focused only on Shariah-compliant financial institutions in three Indonesian provinces, which may limit the generalizability of the findings. Broader geographical coverage would provide more representative insights. Second, firm-level characteristics such as size, age, or governance were not considered, though these factors may moderate the impact of culture and innovation on performance. Third, the reliance on self-reported survey data raises the risk of response bias; future studies could combine surveys with secondary or qualitative data. Fourth, the cross-sectional design restricts causal inference, suggesting that longitudinal approaches are needed.

5. Conclusion

This study aims to understand how various factors influence the integration of green innovation into business practices and their ultimate impact on financial performance, with a particular focus on Sharia financial outcomes. This research provides practical insights into managing green environmental innovation. It emphasizes the importance of cultivating organizational cultures that support creativity and responsiveness to market dynamics—particularly adhocracy and market-oriented cultures—which positively influence green innovation. Firms should also avoid rigid structures and instead promote flexibility, collaboration, and experimentation. Investing in green initiatives across organizations, processes, and products, while leveraging external knowledge and optimizing internal resources, can enhance both innovation and Sharia financial performance.

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RESPONSE TO REVIEWER COMMENTS

Dear Editor and Reviewers,

Thank you for the time invested to carefully consider and provide constructive and insightful feedback for our manuscript. Your feedback has provided an extremely valuable improvement to the clarity, structure, and overall quality of our manuscript. Thus, we have thoroughly revised the manuscript and addressed all comments raised by the reviewers. We have provided a detailed, point-by-point response to each of the reviewer comments below. For ease of review, all revisions made in the manuscript are written in blue ink and highlighted in green.

Thank you once again for your thoughtful feedback and consideration.

Reviewer: 1

Recommendation: Minor Revision

Comments 1

Yes, a few suggestions are mentioned below.

Response:

We s thank the reviewer for the thoughtful suggestions and have carefully considered them in revising the manuscript to improve clarity and quality.

Comments 2

Add references justifying the methodology and concept of Islamic finance. Suggested reads are mentioned below.

1. doi:10.21511/bbs.20(1).2025.10
2. https://doi.org/10.1080/23322039.2022.2114172
3. https://doi.org/10.1016/j.heliyon.2024.e32739
4. DOI 10.1108/IJOES-03-2023-0044
5. https://doi.org/10.3390/su16167240

Response:

Thank you for the constructive suggestions. All requested references have been incorporated into the manuscript to strengthen the justification of the methodology and the conceptual basis of Islamic finance. Specifically:

1. 10.21511/bbs.20(1).2025.10 has been included on page 9, line 5.
2. 10.1080/23322039.2022.2114172 has been included on page 2.
3. doi.org/10.1016/j.heliyon.2024.e32739 has also been added on page 2.

4. https://doi.org/10.1108/IJOES-03-2023-0044 has been added on page 1.
5. https://doi.org/10.3390/su16167240 page 9, line 5.

These references help support and justify the methodology and key concepts discussed in the study.

Thank you for the helpful feedback.

Additional Questions:

1. Originality: Does the paper contain new and significant information adequate to justify publication?: yes

Response:

We thank the reviewer for recognizing the originality and significance of our work.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: yes

Response:

We thank the reviewer for acknowledging that our manuscript demonstrates a thorough understanding of the relevant literature..

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: yes

Response:

We thank the reviewer for recognizing the appropriateness and rigor of the methodology employed in our study.

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: yes,clearly presented

Response:

We thank the reviewer for acknowledging that our results are clearly presented and appropriately analyzed.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: yes

Response:

We thank the reviewer for recognizing that the manuscript clearly identifies implications for research, practice, and society, and effectively bridges theory and practice.

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: yes

Response:

We thank the reviewer for acknowledging the clarity and readability of our manuscript.

Reviewer: 2
Recommendation: Reject
Comments:
Please refer to my comments above.
Response To Reviewer 2
Thank you for the time invested to review our manuscript. We have carefully considered all the suggestions by the reviewer and have revised the manuscript accordingly.

Additional Questions:

1. Originality: Does the paper contain new and significant information adequate to justify publication?: The paper's most significant claim that green innovation leads to "Shariah Financial Performance" is under-theorized. Most researchers struggle to define how SFP differs empirically from conventional ROA or ROE. If the study uses standard accounting metrics but calls them "Shariah" simply because the banks are Islamic, the originality is superficial. Does the paper measure Maqasid al-Shariah achievement (e.g., social justice, wealth distribution, environmental preservation) through a distinct index, or is it just using net profit margins? If it is the latter, the "Shariah" label is a branding exercise rather than a scientific distinction.

Response:

Thank you for this important and constructive comment. We have substantially strengthened the theoretical clarification and conceptual positioning of Shariah Financial Performance (SFP) in the revised manuscript, particularly in the Introduction section (Page 2, line 14; line 20; line 23; line 26; line 35; line 45; and line 46).

First ((Page 2, line 14), we clarified that SFP is conceptually distinct from conventional financial performance measures such as ROA or ROE. The revised text now explicitly defines SFP as financial outcomes generated under Shariah governance, ethical investment constraints, and sustainability-oriented objectives, grounded in *maqasid al-Shariah* principles including wealth preservation (*hifz al-mal*), protection of life (*hifz al-nafs*), and environmental stewardship (*hifz al-bi'ah*) (Chapra, 2016; Alhammadi *et al*., 2022; Khan *et al*., 2022, 2024).

Second (Page 2, line 20; line 23; line 26), we added a new theoretical explanation detailing the mechanisms linking green environmental innovation to SFP, including:
(1) capability development and operational efficiency from a Resource-Based View perspective,
(2) enhanced institutional legitimacy through ethical and sustainability signaling, and
(3) alignment with maqasid al-Shariah objectives and ethical value creation.

Third (Page 2, line 35; line 45; line 46), we clarified the operationalization of SFP measurement, explaining that commonly used comparative financial indicators (sales growth, market share, investment returns) are interpreted within a Shariah governance framework rather than treated as conventional accounting performance proxies.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: The manuscript exhibits a notable lack of depth in specialized literature that would bridge the gap between general management and Islamic-specific organizational behavior. While the paper introduces Shariah concepts like khalifah and maslahah, it relies on generalized Islamic finance texts rather than engaging with the robust, specialized body of literature on Islamic Work Ethics (IWE) or Shariah-based organizational behavior. This omission is critical because the study attempts to redefine corporate culture types within a religious framework without referencing existing debates on how Islamic values might reshape or contradict Western cultural archetypes like "Market" or "Hierarchy."
   Furthermore, the paper overlooks significant work concerning the unique nature of innovation in the service and financial sectors. Much of the cited "green innovation" literature is rooted in manufacturing and product design, which does not perfectly translate to the intangible, contract-based "products" of an Islamic bank. More critically, the study fails to reference established Maqasid al-Shariah performance indices. By ignoring these rigorous, faith-based performance measurement frameworks, the authors miss an opportunity to distinguish their study from conventional financial performance research, leaving the "Shariah" component of the paper's title theoretically underdeveloped.
   Finally, while the paper identifies a contradiction with previous findings regarding "Market" culture and environmental innovation, it does not sufficiently explore the literature that explains why such a divergence might occur in the Indonesian context. The absence of discussion on the regulatory landscape of Indonesian Islamic banking—specifically the role of Shariah Supervisory Boards—suggests a missed opportunity to contextualize the literature within the specific institutional pressures of the region. The authors must move beyond a "sprinkling" of religious terms and engage more deeply with the specialized literature that links Islamic ethics directly to organizational innovation and non-conventional performance metrics.

Response:

We thank the reviewer for highlighting the need for deeper engagement with Islamic-specific organizational and innovation literature. Below is the added and revised section in the Literature review, sub section 2.1; 2.2; 2.5; 2.6; 2.7.

2.1 Corporate culture

The sentence "For this study, Cameron and Quinn's (2011) classification will be adopted, dividing corporate culture into four categories: clan, adhocracy, hierarchy, and market cultures" has been removed. (page 3, line 17-20)

We added the following paragraph after the initial definition of corporate culture (immediately before the explanation of Cameron and Quinn) (page 3, line 13):

Beyond mainstream management perspectives, a growing stream of research emphasizes Islamic Work Ethics (IWE) as a distinct framework for understanding organizational behavior in Shariah-compliant institutions. IWE views work as both an economic and moral responsibility, stressing diligence, honesty, accountability (*amanah*), and collective welfare (*maslahah*) (Ali and Owaihan, 2008; Yousef, 2001). This suggests that corporate culture in Islamic financial institutions is not value-neutral but is shaped by religious-ethical principles.

We added a brief paragraph following the explanation of Cameron and Quinn (2011) (page 2, line 17).

However, when applied in Islamic financial institutions, these culture types require reinterpretation through a Shariah lens. In particular, market culture cannot be understood solely as profit-driven competition, because Islamic principles such as ethical market accountability *(hisbah)* and *maqasid al-shariah* require that market orientation also serves public interest and environmental stewardship *(khalifah)* (Hassan *et al.*, 2019). Similarly, hierarchical arrangements in Islamic institutions are influenced by Shariah governance structures (e.g., Shariah Supervisory Boards), yet excessive bureaucracy may conflict with the Islamic principle of consultation (shura) and limit participatory decision-making (Hassan and Aliyu, 2018).

In the Indonesian Islamic banking context, the application of Western culture archetypes such as "Market" and "Hierarchy" cannot be separated from the country's Shariah governance and regulatory environment (Ascarya and Sakti, 2022). The presence of Shariah Supervisory Boards (SSBs) and OJK regulations introduces institutional pressures that can reshape how market and hierarchical logics operate in practice (Grassa, 2016). Consequently, market-oriented behavior in Indonesian Islamic banks may be more compatible with environmental innovation than in conventional settings, as competitive strategies are simultaneously constrained by Shariah compliance and public-interest considerations. This institutional context helps explain why findings on Market culture and green innovation may diverge from prior studies conducted in non-Islamic financial systems.(Chapra, 2016).

2.2 Green Environmental Innovation

We added the text before the explanation of the three dimensions: green organizations, green processes, and green products (page 2, line 26)

Most green innovation studies are derived from manufacturing and product-based industries, where innovation is tangible and technology-driven. However, in Islamic banking, innovation is largely intangible and contract-based. Therefore, in this study, green environmental innovation is interpreted in a service-finance context as the greening of organizational practices, financing processes, and financial offerings rather than physical products.

In addition, performance assessment in Islamic finance should not rely solely on conventional financial metrics. Prior studies have developed Maqasid al-Shariah-based performance indices that incorporate social, ethical, and environmental dimensions of Islamic banking (Julia and Kassim, 2020; Jan et al., 2022). This study aligns green environmental innovation with these Maqasid-oriented perspectives to ensure that the "Shariah" dimension of performance is conceptually grounded rather than purely financial.

2.5 Hierarchical Culture

We have prepared an addition for Section 2.5 Hierarchical Culture (Page 4), which we have inserted after the paragraph discussing Shariah Supervisory Boards (SSBs)

However, in Indonesia, hierarchical control in Islamic banks is not only managerial but also Shariah-driven through formal compliance structures and DPS/SSB oversight. While this governance enhances religious legitimacy and stakeholder trust, it may also slow decision-making and reduce managerial flexibility, which can partially explain the negative association between hierarchical culture and green environmental innovation observed in this study.

2.6 Market culture and green environmental innovation

Page 6, (lines 22–28): The paragraph beginning with "While market culture is often associated with material performance metrics…" has been removed

2.7 Green environmental innovation and Sharia financial performance

Page 7, Section 2.7 (lines 3–11):

The paragraph beginning with "In Shariah-compliant institutions, performance is not evaluated solely on financial indicators…" has been removed. We inserted this as a paragraph before hypotheses H13–H15.

Moreover, performance assessment in Indonesian Islamic banking is shaped not only by financial outcomes but also by Shariah governance and regulatory expectations. Recent studies have developed Maqasid al-Shariah-based performance frameworks that integrate social, ethical, and environmental dimensions alongside profitability (Julia and Kassim, 2020; Jan *et al.*, 2022). Within this perspective, green environmental innovation can be interpreted as a mechanism for fulfilling maqasid objectives—particularly environmental stewardship and public welfare—thereby linking innovation directly to Shariah-aligned performance rather than conventional financial metrics alone.

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: 1) The research design utilizes a survey of 270 managers across three Indonesian provinces and employs Partial Least Squares Structural Equation Modelling (PLS-SEM) for analysis. While the response rate is high (81.33%), the study faces a substantial risk of Common Method Bias (CMB) because it relies entirely on self-reported survey data from a single respondent per firm for

both independent and dependent variables. Although the authors performed a full collinearity assessment to mitigate this, the subjective nature of measuring "Shariah financial performance" through manager perceptions, rather than objective financial statements or audited ESG reports, limits the empirical weight of the findings. 2) The categorization of green innovation into organizational, process, and product dimensions is theoretically sound but may suffer from overlap in a service-oriented sector like banking. For instance, a "green process" like digitalizing workflows often results in a "green product" like paperless banking, making the statistical distinction between these dimensions potentially fragile. Furthermore, the paper's critique of "Hierarchy" culture as a hindrance to innovation overlooks the essential role of strict hierarchical Shariah governance (e.g., Shariah Supervisory Boards) in ensuring the legitimacy of those very innovations. The authors should address this paradox: can an Islamic bank be truly "innovative" without the "hierarchy" that guarantees its religious compliance?

Response:

We thank the reviewer for these comments. In response, we have revised the Methods section to clarify the measurement of variables, respondent selection, and procedures to address common method bias.

First, in Section 3 ("Data Collection and Sample," pages 7, lines 50 and 54), we clarified that senior and middle managers were deliberately selected because they are directly involved in strategic decision-making, Shariah compliance coordination, and sustainability initiatives, while access to audited financial statements and ESG disclosures is limited in many Indonesian Islamic banks. Furthermore, although the study relies on a single knowledgeable respondent per firm, this approach is consistent with prior organizational-level research in Islamic finance and sustainability, where firm-level variables are commonly captured through informed managerial assessments (Podsakoff et al., 2003; Julia and Kassim, 2020; Jan et al., 2022). These revisions ensure that the rationale for respondent selection and measurement approach is transparent and clearly linked to prior research.

Second, in Section 3.2 ("Measurement," page 8, lines 41–44), we clarified that Shariah financial performance was measured using a three-item scale adapted from Wang (2019) and Menne et al. (2022). We also explained the conceptual basis of the construct: Shariah financial performance reflects financial outcomes achieved under Shariah governance constraints, including ethical investment screening, risk-sharing principles, and oversight by Shariah Supervisory Boards (Dusuki and Abdullah, 2007). This addition emphasizes that SFP is conceptually distinct from conventional financial performance measures.

Finally, in Section 3.3 ("Common Method Bias," page 8, lines 54 and 60), we provided further details on the procedures used to mitigate potential common method bias. Specifically, independent variables (corporate culture), mediating variables (green environmental innovation), and dependent variables (Shariah financial performance) were positioned in separate sections of the questionnaire to reduce respondents' ability to infer hypothesized relationships. We also highlighted that full collinearity assessment is more appropriate for PLS-SEM than Harman's single-factor test, particularly in models involving formative perceptions and organizational-level variables (Alam et al., 2025). These revisions ensure a robust check for multicollinearity and method bias, supporting the integrity of the data for PLS-SEM analysis.

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: The authors provide the necessary metrics for convergent and discriminant validity, such as Average Variance Extracted (AVE) and Heterotrait-Monotrait (HTMT) ratios, but the transition from statistical significance to practical banking reality is abrupt. For instance, the finding that Adhocracy and Market cultures are primary drivers of green innovation is presented as a statistical "win," but the analysis fails to critically interrogate the friction between a profit-driven "Market" culture and the altruistic, stewardship-based requirements of Shariah law. By treating these path coefficients as self-explanatory, the analysis overlooks the complex internal tensions managers likely face when balancing aggressive market competition with the long-term ethical mandates of Maslahah.
   Furthermore, the analysis of "Hierarchy" culture as a purely negative force in the innovation process represents a significant analytical blind spot. In a highly regulated industry like Islamic finance, the "Hierarchy" culture often manifests as the Shariah Supervisory Board (SSB) and strict compliance protocols. The results characterize this rigidity as a barrier to green innovation without considering that in an Islamic context, "innovation" without "hierarchy" (compliance) is essentially void. The analysis would be much more sophisticated if it explored whether Hierarchy acts as a "moderator" that ensures green products are actually Shariah-compliant, rather than just treating it as a linear "hindrance." This lack of nuanced interpretation suggests that the results were analyzed through a generic management lens rather than one tailored to the specificities of the Islamic financial sector.
   Also, the authors fall short of providing a truly integrated synthesis. The "Shariah" element, which is the paper's primary differentiator, remains peripheral in the final discussion. The conclusion that green innovation enhances Shariah financial performance is based on traditional growth metrics like market share and investment returns, which creates a circular logic: the banks are Shariah-compliant because they are Islamic banks, and their performance is "Shariah performance" simply because they grew. A critical conclusion should have bridged the gap between the Resource-Based View and Maqasid al-Shariah, explaining how environmental stewardship (as a resource) specifically fulfills a religious obligation that traditional banks do not share.
   Finally, the paper concludes with a set of practical implications that are somewhat generic, such as suggesting that managers should "foster an innovative culture." This lacks the bite required for a high-impact publication. A more critical and useful conclusion would have addressed the "Dark Side" of their findings—for example, how an over-reliance on "Market" culture might lead to "Greenwashing" in Islamic banks to meet consumer demand without substantive environmental change. Ultimately, while the elements of the paper are tied together by a clear logical thread, the depth of that thread is shallow; it confirms existing management cliches within a new context without challenging or expanding the theoretical boundaries of how Shariah ethics redefines the very nature of corporate culture and performance.

Response:

We thank the reviewer for the comment. In response, we have added a transitional paragraph at the beginning of the discussion of the structural results (Section 4, page 10 line 32) The paragraph reads as follows:

While this finding aligns with the competitive logic of innovation, it raises an important conceptual tension within the Shariah context. Market culture is typically associated with aggressive competition, performance pressure, and profit maximization, which may appear at odds with Shariah principles emphasizing stewardship (khalifah), social welfare (maslahah), and long-term ethical responsibility (Cameron and Quinn., 2011; Chapra, 2016; Dusuki and Abdullah, 2007).

We have added two paragraphs in Section 4 (page 10 line 51) to clarify that green innovation in Islamic financial institutions contributes not only to conventional financial outcomes but also to ethical legitimacy, risk reduction, and alignment with maqasid al-shariah objectives.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: The manuscript identifies implications that are theoretically aligned with its findings but remains largely superficial in bridging the gap between academic correlation and the complex realities of Islamic financial practice. While the "business case" for green innovation is clearly articulated, suggesting that managers prioritize Adhocracy and Market cultures to drive performance, the paper fails to address the significant economic trade-offs, such as the high cost of capital for green initiatives or the competitive pressures of the dual-banking system in Indonesia. Furthermore, by reducing the profound ethical imperative of Maslahah (public interest) to a mere driver of "market share" and "reputation," the study risks instrumentalizing Shariah values for commercial gain rather than offering a roadmap for genuine societal transformation. To be truly impactful, the research needed to move beyond generic management advice and propose specific, Shariah-compliant "Green KPIs" or policy recommendations that could help regulators and practitioners navigate the friction between rigorous religious compliance and the aggressive demands of sustainable innovation.

Response:

We thank the reviewer for the constructive feedback. We have clarified the theoretical implications by highlighting both enabling and constraining roles of organizational cultures in Shariah-compliant innovation, including risks of “greenwashing.” Practical recommendations now include Shariah-compliant Green KPIs, sustainability-integrated training and performance systems, and policy guidance such as environmental criteria in Shariah governance frameworks. Economic trade-offs and competitive pressures in dual-banking systems are explicitly addressed. Finally, societal impact has been strengthened, emphasizing public trust, environmental accountability, and alignment with maqasid al-Shariah, thereby bridging theory, practice, and social benefit.

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: Adequate

   Response:
   We thank the reviewer for noting the clarity of our manuscript

4. Bukti Konfirmasi Artikel Accepted

(29 April 2026)

UNIVERSITAS LA TANSA MASHIRO
جامعة لا تنس مصيرا

Juliansyah Noor <juliansyah.noor@unilam.ac.id>

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Balas Ke: aun.raza@lums.edu.pk
Kepada: soleh@unilam.ac.id, solehlatansa66@gmail.com, juliansyah.noor@unilam.ac.id, profjul.noor@gmail.com, diniarifian74@gmail.com

28-Apr-2026

Dear Soleh, Soleh; Noor, Juliansyah; Arifian, Dini

It is a pleasure to accept your manuscript IMEFM-10-2025-0777.R1, entitled "Corporate Culture and Green Environmental Innovation: Effects on Shariah Financial Performance" in its current form for publication in International Journal of Islamic and Middle Eastern Finance and Management.   Please note, no further changes can be made to your manuscript.

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Sincerely,
Dr. Syed Aun R. Rizvi
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5. Bukti Konfirmasi Artikel Published Online

(01 Juni 2026)

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(01 Juni 2026)

Corporate culture and green environmental innovation: effects on Shariah financial performance

International Journal of Islamic and Middle Eastern Finance and Management

Soleh, Juliansyah Noor and Dini Arifian
Department of Management, La Tansa Mashiro University, Rangkasbitung, Indonesia

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Abstract

Purpose – This study aims to explore how corporate culture influences green environmental innovation and assesses its impact on Shariah financial performance within Islamic financial institutions.

Design/methodology/approach – A survey of 270 managers from institutions in Banten, Jakarta and West Java, Indonesia, was conducted. Data were analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to test relationships between four culture types – clan, adhocracy, hierarchy and market – green innovation dimensions (organizational practices, processes and products), and financial performance.

Findings – The results indicate that adhocracy and market culture significantly promote green innovation, while clan culture has a weaker yet positive effect. Conversely, hierarchy culture negatively affects all innovation dimensions. Green organizational practices, processes and products positively contribute to Shariah financial performance, suggesting that flexible and market-oriented cultures help align sustainability with financial objectives.

Practical implications – From a practical perspective, managers are encouraged to foster innovation-friendly environments, align market-driven incentives with environmental goals and revise rigid internal structures. Recommended mechanisms include cross-functional green teams, eco-compliance key performance indicators and integrating maqashid-al-shariah principles into environmental strategies.

Originality/value – This study advances the Islamic finance and sustainability literature by empirically connecting culture, innovation and performance, and offers practical strategies for embedding environmental innovation within Shariah-compliant financial operations.

Keywords Green environmental innovation, Clan, Adhocracy, Hierarchy, Market, Shariah financial performance

Paper type Research paper

1. Introduction

Green environmental innovation has the potential to make processes and products more energy efficient and reduce the use of green materials and energy, which is why many countries have laws that encourage businesses to use sustainable methods. However, despite these efforts, several firms have encountered significant challenges. Consequently, they have faced difficulties in attaining what Padilla-Lozano and Collazzo (2022) refer to as a "win-win" scenario, wherein environmental enhancements coincide with financial prosperity. This failure to generate both green and financial benefits has dampened some firms' motivation to pursue green environmental innovation (Roscoe *et al.*, 2019). This challenge becomes even more complex in Shariah-compliant financial institutions, where financial success is evaluated not only in terms of profitability but also in relation to ethical value creation and compliance with Islamic principles (Akhter *et al.*, 2023).

In Indonesia, the rise of Shariah-compliant financial institutions has added new dimensions to discussions around sustainability. These institutions operate under Islamic principles that promote ethical investment, environmental stewardship (*khalifah*) and social

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responsibility (*maslahah*) (Julia and Kassim, 2020). Accordingly, "Shariah Financial Performance" (SFP) cannot be understood as a mere replication of conventional accounting profitability (e.g. ROA or ROE), but rather as financial outcomes generated through activities that are consistent with Shariah objectives, ethical constraints and stakeholder welfare (Khan *et al.*, 2022; Khan *et al.*, 2024). While previous studies have explored the role of regulations, stakeholder influence and managerial orientation in driving green innovation (Arici and Uysal, 2021; Syamlan *et al.*, 2025), the theoretical mechanisms explaining how green environmental innovation contributes specifically to Shariah Financial Performance remain insufficiently articulated, particularly in emerging Islamic financial markets (Gürlek and Koseoglu, 2021).

From a theoretical standpoint, green environmental innovation may enhance Shariah Financial Performance through multiple interrelated channels. First, drawing on the resource-based view (RBV), green organizational practices, processes and products constitute firm-specific capabilities that can improve operational efficiency, reduce long-term costs and strengthen sustainable competitive advantage while remaining consistent with Shariah constraints (Barney, 2001; Liao, 2016; Gürlek and Koseoglu, 2021). Second, green innovation strengthens institutional legitimacy among regulators, customers and Shariah supervisory stakeholders by signaling adherence to ethical investment principles, environmental accountability and responsible governance (Julia and Kassim, 2020; Padilla-lozano and Collazzo, 2022). Third, green innovation operationalizes key *maqasid al-shariah* objectives – particularly the protection of wealth (*hifz al-mal*), life (*hifz al-nafs*) and the environment (*hifz al-bi'ah*) – thereby aligning economic performance with Islamic ethical imperatives and sustainability-oriented value creation (Chapra, 2016; Alhammadi *et al.*, 2022).

One area that remains underexplored is the role of corporate culture in improving environmental innovation (Iqbal, Akhtar *et al.*, 2021). Corporate culture, as a system of shared values and norms, plays a critical role in influencing organizational behavior and strategic decision-making. Despite its significance, limited research has been conducted to understand how different types of corporate culture – such as clan, adhocracy, hierarchy and market culture – drive the adoption and effectiveness of green environmental innovation. Furthermore, existing studies often treat financial performance in Islamic institutions as indistinguishable from conventional accounting outcomes, without clarifying whether financial improvements are achieved through Shariah-aligned value creation or merely labeled "Islamic" due to institutional identity.

In this study, Shariah Financial Performance is conceptualized as relative financial performance achieved by Shariah-compliant institutions through business activities that are consistent with Islamic ethical principles and sustainability objectives (Julia and Kassim, 2020; Chapra, 2016). While the empirical indicators employed rely on comparative financial performance measures commonly used in prior Islamic finance research – such as sales growth, market share and investment returns relative to competitors – (Wang, 2019; Menne *et al.*, 2022), these indicators are interpreted within a Shariah governance framework in which profit generation is constrained by ethical investment screening, risk-sharing principles and environmental responsibility (Hassan and Aliyu, 2018; Avdukic and Asutay, 2025). Thus, the "Shariah" dimension in this study does not merely reflect institutional labeling, but the performance implications of operating under Shariah governance and sustainability-oriented constraints, consistent with prior empirical approaches in Islamic finance literature (Julia and Kassim, 2020; Jan *et al.*, 2022).

This study addresses these gaps by investigating the influence of organizational culture on green environmental innovation, and how different dimensions of green innovation relate to Shariah financial performance within Indonesia's Islamic banking sector. By integrating the competing values framework (Cameron and Quinn, 2011) and the RBV (Barney, 2018) with *maqasid al-shariah* principles, this study aims to provide a culturally grounded and contextually relevant understanding of how green environmental innovation contributes to financially sustainable and ethically compliant performance in Islamic financial institutions.

2. Literature review

Recent studies have increasingly examined the intersection between environmental innovation and Islamic finance in different contexts. For instance, Lee and Isa (2023) found that Shariah-compliant firms in Malaysia adopting environmental, social, and governance (ESG) practices were able to enhance their market reputation while simultaneously improving financial performance. Similarly, Alghafes *et al.* (2024) emphasized the importance of ESG-related factors in determining the financial stability of Islamic banks across Gulf Cooperation Council (GCC) countries. These studies suggest that Islamic financial institutions are not only pressured by regulatory requirements but also by shifting consumer preferences towards sustainable financial products.

However, much of the existing literature treats sustainability in Islamic finance as an extension of conventional ESG frameworks, without sufficiently grounding the analysis in Islamic ethical foundations such as Islamic Work Ethics (IWE), Shariah-based organizational behavior and the *maqasid al-shariah* (Dusuki and Abdullah, 2007; Beekun and Badawi, 2005; Ali and Owaihan, 2008). As a result, Islam is often used symbolically rather than analytically, limiting its explanatory power in understanding how sustainability-oriented strategies translate into Shariah Financial Performance (Hussain Khan *et al.*, 2021; Hassan and Aliyu, 2018).

2.1 Corporate culture

Corporate culture consists of a set of shared fundamental beliefs and assumptions developed by an organization to address internal cohesion and adapt to external changes (Bashir, 2022; Wang *et al.*, 2021; Provasnek *et al.*, 2017; Mady *et al.*, 2023). These core assumptions are not only widely accepted by the organization's members but are also continuously passed on to newcomers (Schein, 2016). In addition, corporate culture encompasses the values, norms and assumptions that guide decision-making and actions within the organization (Barney, 2001; Zheng *et al.*, 2023; Farzaa *et al.*, 2021; Arici and Uysal, 2021). Cameron and Quinn (2011) proposed a framework that classifies organizational culture into four distinct types, using two main dimensions: the balance between flexibility and stability, and the focus on internal versus external concerns (Nazarian *et al.*, 2017). For this study, Cameron and Quinn's (2011) classification will be adopted, dividing corporate culture into four categories: clan, adhocracy, hierarchy and market culture.

Within Islamic financial institutions, corporate culture is additionally shaped by IWE, which emphasize honesty, social responsibility, moderation and accountability to God (*taqwa*) (Beekun and Badawi, 2005; Ali and Owaihan, 2008). These ethical foundations influence organizational behavior by aligning economic objectives with moral obligations, thereby affecting how employees perceive innovation, competition and environmental responsibility (Yousef, 2001; Murtaza *et al.*, 2016). Shariah-based organizational behavior thus provides an important analytical lens for understanding how cultural values interact with strategic decisions in Islamic banking contexts (Dusuki and Abdullah, 2007; Kuanova *et al.*, 2021).

2.2 Green environmental innovation

Green environmental innovation involves creating and applying new or improved methods, systems, technologies or products designed to reduce or prevent damage to the environment

(Farzaa *et al.*, 2021; Iqbal *et al.*, 2021). Green environmental innovation can be categorized into three dimensions: green processes, green organizations and green products (Zhou *et al.*, 2021). In the context of Islamic banking, green environmental innovation should be reframed as *maqasid*-driven sustainable Islamic finance rather than manufacturing-based environmental practices (Dusuki and Abdullah, 2007; Kuanova *et al.*, 2021). Unlike manufacturing firms, Islamic banks primarily engage in financial intermediation, risk-sharing and asset-backed financing (Hassan *et al.*, 2019). Accordingly, green innovation in Islamic banking manifests through sustainable financing instruments, environmentally responsible investment screening, green sukuk, ethical credit allocation and organizational policies that integrate environmental risk into Shariah-compliant decision-making (Oladapo, 2024; Alghafes *et al.*, 2024).

2.3 Clan culture and green environmental innovation

Clan culture is characterized by a focus on building strong interpersonal relationships, providing mutual support and fostering a sense of harmony and collaboration within the organization (Cameron and Quinn., 2011). From the perspective of IWE, clan culture reinforces moral commitment, knowledge sharing and collective accountability, which are critical for embedding sustainability-oriented behaviors into daily organizational practices (Beekun and Badawi, 2005; Murtaza *et al.*, 2016). Such ethical cohesion facilitates *maqasid*-driven innovation by encouraging employees to view environmental responsibility as a shared moral obligation rather than an externally imposed requirement (Hassan *et al.*, 2019). Consequently, clan culture can support green organizational practices and environmentally conscious product and service development in Shariah-compliant institutions (Yousef, 2001).

Clan culture emphasizes a warm, friendly work environment, where leaders act as mentors or parental figures, echoing the Islamic concept of exemplary leadership (*qudwah hasanah*). Trust is foundational, allowing for open communication between managers and employees. This culture cultivates an environment where knowledge is freely exchanged, and employees actively learn from one another, facilitating organizational knowledge transfer (Vasileiou *et al.*, 2022; Parrilli *et al.*, 2023). Within an Islamic context, this is further reinforced by the religious emphasis on mutual cooperation (*ta'awun*) and collective responsibility, which are essential for building cohesive teams committed to both ethical and environmental objectives.

Environmental policies, stakeholder pressure, resource availability and managerial cognition interact with the relational structure of clan culture to create enabling conditions for green environmental innovation (Lee and Isa, 2023; Isa and Lee, 2020; Kwan *et al.*, 2018). Based on the above discussion, the following hypotheses are proposed:

H1. Clan culture influences green organizations.

H2. Clan culture influences green processes.

H3. Clan culture influences green products.

2.4 Adhocracy culture and green environmental innovation

Adhocracy culture prioritizes creating an environment that fosters innovation, embraces change and encourages individual initiative and independence (Mohsni *et al.*, 2023; Cameron and Quinn., 2011). Within this culture, organizations aim to build a dynamic atmosphere where challenge, risk-taking and creativity are valued, especially in the pursuit of environmental goals (Tariq *et al.*, 2019; Zheng *et al.*, 2023; Lee and Isa, 2023). Given that green organizations, processes and products often involve high levels of uncertainty and risk, organizations with an adhocracy culture are more inclined to make bold, environmentally innovative decisions. In such an environment, the drive for green environmental innovation typically emerges organically from the organization's members, rather than through formal, structured decision-making processes.

Adhocracy culture enables *maqasid*-driven innovation by allowing Islamic banks to design novel Shariah-compliant financial instruments that support environmental sustainability, such as green sukuk or sustainable financing schemes (Gürlek and Koseoglu, 2021; Aliyu *et al.*, 2017). This alignment between innovation and ethical reasoning strengthens the role of green innovation as a strategic capability rooted in Islamic principles rather than a replication of conventional practices (Dusuki and Asyraf, 2008).

Adhocracy culture is characterized by its ability to tolerate stress and adapt to challenging situations. As environmental regulations become stricter, this type of culture encourages organizations to pursue green organizations, processes and products in response to external pressures. This adaptability is particularly relevant in Shariah-compliant settings, where firms must respond not only to regulatory demands but also to religious imperatives concerning environmental preservation and social responsibility (*khalifah and amanah*). Accordingly, the following hypotheses are formulated:

H4. Adhocracy culture influences green organizations.

H5. Adhocracy culture influences green processes.

H6. Adhocracy culture influences green products.

2.5 Hierarchical culture and green environmental innovation

The principles of stability and control form the foundation of a hierarchical culture (Cameron and Quinn., 2011). Organizations with a hierarchical culture are typically structured around a clear chain of command and adhere to formal rules and regulations. These companies are led by conservative and risk-averse management styles, with an emphasis on maintaining operational stability and efficiency over the long term (Morgan and Vorhies, 2018). Given the focus on predictability and order within a hierarchy culture, firms are often less inclined to engage in green organizations, processes and products, as such innovations often come with higher levels of uncertainty and risk, which may conflict with the culture's preference for stability and control.

In Shariah-compliant financial institutions, hierarchical features are often embedded within formal Shariah governance frameworks, including Shariah Supervisory Boards (SSBs), Shariah compliance audits and layers of procedural review designed to ensure conformity with Islamic legal principles (Muryanto, 2023; Rahim *et al.*, 2024). While these structures are essential for safeguarding Shariah compliance and stakeholder trust (Chapra, 2016; Hassan and Aliyu, 2018), excessive procedural rigidity may constrain *maqasid*-oriented innovation by limiting organizational flexibility and experimentation (Cameron and Quinn 2011; Gürlek and Koseoglu, 2021). Accordingly, hierarchical culture in Islamic banks may play a dual role: preserving ethical legitimacy while potentially inhibiting adaptive green innovation when governance mechanisms dominate strategic discretion (Farooqi, 2006). Within such centralized structures, limited autonomy and restricted knowledge sharing may further suppress the collaboration and creativity required for implementing green organizational practices, processes and products. Thus, the following hypotheses are proposed:

H7. Hierarchical culture impacts green organizations.

H8. Hierarchical culture impacts green processes.

H9. Hierarchical culture impacts green products.

2.6 Market culture and green environmental innovation

Market culture is a results-driven organizational culture that prioritizes competition, focusing on achieving a large market share and enhancing customer satisfaction (Cameron and Quinn 2011; Nazarian *et al.*, 2017). As consumer demand for green products continues to rise, organizations shaped by a market-oriented culture are more likely to pursue green organizations, processes and products. This drive for innovation is motivated by the desire to satisfy customer preferences and capture a greater share of the market.

However, in the Indonesian Islamic banking context, market-oriented culture operates under strong Shariah governance, regulatory oversight by the Financial Services Authority and active SSBs (Chapra, 2016; Hassan and Aliyu, 2018). These institutional mechanisms constrain purely profit-driven behavior and require that competitive strategies remain aligned with Shariah principles and sustainability mandates.

As a result, market culture in Indonesian Islamic banks may promote green innovation not solely as a competitive tactic, but as a means of achieving regulated, ethically constrained performance that satisfies both market demands and *maqasid al-shariah* objectives (Cameron and Quinn 2011; Julia and Kassim, 2020). This context helps explain why market-oriented culture may behave differently in Indonesian Islamic banking compared to findings from conventional or non-Islamic settings (Gürlek and Koseoglu, 2021; Jan *et al.*, 2022).

In Shariah-compliant financial institutions, market orientation can be ethically aligned with Islamic principles, particularly when pursued through the lens of *maslahah* (promotion of public benefit) and *amanah* (trustworthiness) (Chapra, 2016; Hassan and Aliyu, 2018). The concept of hisbah – market accountability to ensure fairness, transparency and the well-being of society – also reinforces the legitimacy of environmentally sustainable practices as part of institutional performance (Hussain Khan *et al.*, 2021; Beekun and Badawi, 2005). Furthermore, the Islamic value of excellence in work (*itqan*) encourages institutions to go beyond minimal compliance and pursue best practices, including sustainability leadership, innovation and environmental stewardship (*khalifah*) (Beekun and Badawi, 2005). Therefore, the following hypotheses are developed:

H10. Market culture impacts green organizations.

H11. Market culture impacts green processes.

H12. Market culture impacts green products.

2.7 Green environmental innovation and Sharia financial performance

In today's highly competitive business landscape, companies must focus on fostering individual competitiveness, which makes innovation a critical factor for success. Innovation not only helps firms maintain an edge over their competitors, but it also enhances their ability to adapt and thrive, ultimately leading to improved performance. Green organizations, processes and products, which focus on reducing environmental harm throughout the product lifecycle, represent a key strategy in this context. By implementing such sustainable innovations, firms can gain a market advantage, drive revenue growth and improve Sharia financial performance (Jan *et al.*, 2022; Rashedul, 2022).

Green organizations, processes and products play a pivotal role in optimizing the use of raw materials, minimizing pollutant emissions and offering a cost-effective advantage. In addition, it facilitates the creation of superior and more inventive products, which can help distinguish a company from its competitors (Jan *et al.*, 2022). When companies adopt green technologies and develop environmentally friendly products, they often garner positive recognition from governments, consumers and other stakeholders. This enhanced reputation not only helps businesses expand their market share and improve customer satisfaction but also strengthens their Sharia financial performance (Julia and Kassim, 2020). According to the RBV, a company's sustained competitive edge and superior performance arise from its distinct, valuable, scarce and hard-to-replicate resources and capabilities (Liao, 2016).

From *a maqasid al-shariah* perspective, such innovation contributes directly to the protection of wealth (*hifz al-mal*), life (*hifz al-nafs*) and the environment (*hifz al-bi'ah*), positioning green innovation as an ethical and strategic imperative rather than a purely technical or operational practice (Chapra, 2016; Dusuki and Asyraf, 2008). Thus, green organizations, processes and products in Islamic finance represent institutional mechanisms through which sustainability objectives are operationalized within Shariah constraints (Zhang *et al.*, 2021; Oladapo, 2024), the following hypotheses are proposed:

H13. Green organizations impact Shariah financial performance.

H14. Green processes impact Shariah financial performance.

H15. Green products impact Shariah financial performance.

Building upon the analysis provided above, we developed the theoretical model shown in Figure 1.

3. Research methodology

3.1 Sample and procedures

This research used a questionnaire to gather data, using established scales to ensure robust measurement. To guarantee the validity and reliability of the questions, the study underwent a thorough translation process, which included back-translation and multiple revisions to resolve any inconsistencies or unclear items. Before launching the main study, a pilot test was conducted with 20 Shariah financial institutions in the Banten province. Feedback from this pilot led to refinements in the questionnaire, addressing issues such as unclear wording and ambiguous phrasing.

The formal data collection commenced in March 2024 and continued for one month, targeting Shariah financial firms across Banten, Jakarta and West Java. Respondents were selected from middle and senior management positions, ensuring that the individuals

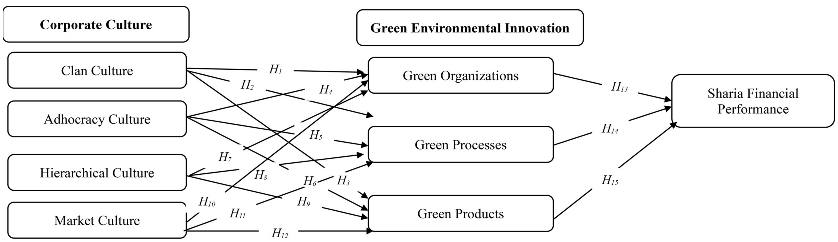

Figure 1. Theoretical model

completing the survey were well-acquainted with the operations of their respective firms, thus providing reliable and accurate responses. Senior and middle managers were chosen deliberately because access to audited financial statements and ESG disclosures is restricted in many Indonesian Islamic banks, and these managers are directly involved in strategic decision-making, Shariah compliance coordination and sustainability initiatives (Jan *et al.*, 2022).

A total of 450 questionnaires were distributed, with 332 completed surveys returned, resulting in a response rate of 73.78%. After eliminating 62 invalid questionnaires, 270 valid responses remained, yielding an effective response rate of 81.33%. Although the study relies on a single knowledgeable respondent per firm, this approach is consistent with prior organizational-level research in Islamic finance and sustainability, where firm-level variables are commonly captured through informed managerial assessments (Podsakoff *et al.*, 2003; Julia and Kassim, 2020; Jan *et al.*, 2022).

3.2 Measurement

This study examined three main variables: Shariah financial performance, green environmental innovation and corporate culture. To measure these variables, a five-point Likert scale was used, with 1 representing "strongly disagree" and 5 indicating "strongly agree."

The corporate culture measurement scale used in this study was based on the frameworks developed by Cameron and Quinn (2011) and Gürlek and Koseoglu (2021), consisting of ten items in total. These items were distributed across four types of corporate culture: "clan culture, adhocracy culture, hierarchy culture, and market culture" (Cameron and Quinn 2011; p. 21), with two items assigned to each category. For example, statements related to clan culture included "Loyalty and trust keep our company united." In the case of adhocracy culture, an example statement is "Goal fulfilment and the search for success keeps our company united." For hierarchy culture, a statement might be "Our firm is a place which stands out because of structure and order," and for market culture a typical statement is "In our company, success is defined by technological and service innovations."

The environmental innovation measurement scale used in this study was adapted from the work of Singh *et al.* (2020), comprising nine items in total. These items were categorized into three groups: green organizations (three items), green processes (three items) and green products (three items). For example, a statement related to green organizations might be "Our firm's management often uses novel management systems to manage green environmental innovation." A statement for green processes could be "Our firm often updates innovatively manufacturing processes to protect against contaminations." Finally, for green products, an example statement would be "Our firm often emphasizes on developing new green products through new technologies to easily recycle their components."

To assess Shariah financial performance was measured using a three-item scale adapted from Wang (2019) and Menne *et al.* (2022), which included three key items. Examples of the items include: " Compared with major competitors, the sales growth of our firm is higher," "Compared with major competitors, the market share of our firm is higher" and "Compared with major competitors, the investment return rate of our firm is higher." In this study, Shariah financial performance reflects financial outcomes achieved under Shariah governance constraints, including ethical investment screening, risk-sharing principles and oversight by SSBs (Dusuki and Abdullah, 2007).

3.3 Common method bias

To mitigate the risk of common method bias (CMB), both procedural and statistical approaches were employed in line with best practices for PLS-SEM (Kock, 2023). Procedurally, respondent anonymity was assured, scale items were dispersed across different sections of the instrument and no ambiguous or leading questions were included. In addition, independent variables (corporate culture), mediating variables (green environmental innovation) and dependent variables (Shariah financial performance) were positioned in separate sections of the questionnaire to reduce respondents' ability to infer hypothesized relationships. Statistically, full collinearity assessments were conducted to detect potential method bias. As recommended by Kock and Lynn (2012), variance inflation factors (VIFs) for all variables were examined using SmartPLS. The results showed that all full collinearity VIF values were below the threshold of 3.3, indicating that CMB was not a significant threat to the integrity of the data. This approach is considered more appropriate for PLS-SEM than Harman's single-factor test, particularly in models involving formative perceptions and organizational-level variables (Alam *et al.*, 2025; Javed *et al.*, 2024). This approach is considered more appropriate for PLS-SEM than traditional Harman's single-factor test or CFA-based assessments, which are more suited to covariance-based SEM. The use of full collinearity diagnostics provides a robust indication that multicollinearity and method bias are not present at problematic levels in this study.

4. Findings and discussion

Prior to performing the SEM analysis, this study first assessed the measurement model, as it was crucial for assessing the composite reliability (CR), average variance extracted (AVE) and the overall reliability of the variables involved. To gauge reliability, both composite reliability and Cronbach's alpha (CA) were used. The results of the confirmatory factor analysis revealed that the factor loadings for all items exceeded 0.70 (Hair *et al.*, 2020), confirming the good convergent validity of the variables (see Table 1). In addition, this study

Table 1. Reliability results

Variable	Item	Factor loading	AVE	Composite reliability	α	VIP
Clan culture	CC1	0.735	0.678	0.764	0.891	1.67
	CC2	0.762				
Adhocracy culture	AC1	0.843	0.619	0.814	0.809	1.89
	AC2	0.812				
Hierarchy culture	HC1	0.867	0.709	0.764	0.801	1.58
	HC2	0.775				
Market culture	MC1	0.723	0.679	0.801	0.804	1.59
	MC2	0.883				
Green organizations	GO1	0.787	0.677	0.821	0.781	1.78
	GO2	0.878				
	GO3	0.878				
Green processes	GPR1	0.876	0.719	0.798	0.765	1.87
	GPR2	0.845				
	GPR3	0.867				
Green products	GPD1	0.798	0.609	0.791	0.812	1.38
	GPD2	0.878				
	GPD3	0.876				
Sharia financial performance	SFP1	0.889	0.721	0.826	0.788	1.86
	SFP2	0.890				
	SFP3	0.797				

Note(s): CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market culture; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance assessed discriminant validity using both the heterotrait-monotrait (HTMT) ratio and the Fornell–Larcker criterion (Fornell and Larcker, 1994). As shown in Table 2, the HTMT ratio values are all below the threshold of 0.90.

The findings from the structural model estimation reveal several results regarding the impact of corporate culture on green environmental innovation. Clan culture has a positive and significant effect on green organizations ($\beta = 0.107$; $t = 2.714$; $p < 0.01$) and green products ($\beta = 0.157$; $t = 2.614$; $p < 0.01$), but does not significantly influence green processes ($\beta = 0.062$; $t = 1.342$; $p > 0.05$). Therefore, *H1* and *H3* are supported, while *H2* is not supported. Adhocracy culture positively influences green organizations ($\beta = 0.128$; $t = 3.174$; $p < 0.01$), green processes ($\beta = 0.267$; $t = 3.231$; $p < 0.01$) and green products ($\beta = 0.317$; $t = 3.917$; $p < 0.01$), supporting *H4*, *H5* and *H6*. Hierarchy culture has a negative and significant impact on green organizations ($\beta = -0.247$; $t = 2.541$; $p < 0.05$), green processes ($\beta = -0.117$; $t = 2.172$; $p < 0.05$) and green products ($\beta = -0.221$; $t = 2.318$; $p < 0.05$), thus supporting *H7*, *H8* and *H9*. Market culture positively affects green organizations ($\beta = 0.257$; $t = 3.287$; $p < 0.01$), green processes ($\beta = 0.372$; $t = 3.614$; $p < 0.01$) and green products ($\beta = 0.347$; $t = 3.524$; $p < 0.01$), supporting *H10*, *H11* and *H12*.

To identify the magnitude of multicollinearity, VIF is a widely used metric. As a recently revised rule of thumb, the VIF values of the variables in a model should be below 3.0 (Hair *et al.*, 2020). VIF values presented in Table 2 are well below the upper threshold, thus, enabled us to proceed further in structural model.

In addition, the results presented in Table 3 indicate that green organizations ($\beta = 0.342$; $t = 3.674$; $p < 0.01$), green processes ($\beta = 0.172$; $t = 2.264$; $p < 0.05$) and green products ($\beta = 0.182$; $t = 2.576$; $p < 0.05$) all have a significant positive effect on Sharia financial performance. Therefore, hypotheses *H13*, *H14* and *H15* are supported. The final model of the study is illustrated in Figure 2.

The objective of this study is to examine the relationships between corporate culture, green environmental innovation and Sharia financial performance, focusing on a sample of 270 Shariah financial institutions. Using a partial least squares structural equation model (PLS-SEM), the research aims to analyze how these factors interact and their impact on the financial outcomes of Sharia financial institutions.

Clan culture has a positive influence on green environmental innovation, while hierarchy culture tends to hinder it. Both clan and hierarchy cultures primarily focus on internal aspects of a company, and since green organizations innovation is also driven by internal factors, these cultural types impact it more than other forms of innovation, such as green processes or

Table 2. Discriminant validity results

Variables	CC	AC	HC	MC	GO	GPR	GPD	SFP
Clan culture	*0.785*							
Adhocracy culture	0.757	*0.864*						
Hierarchy culture	0.741	0.811	*0.872*					
Market culture	0.712	0.744	0.788	*0.790*				
Green organizations	0.577	0.731	0.655	0.705	*0.718*			
Green processes	0.545	0.651	0.632	0.689	0.689	*0.790*		
Green products	0.458	0.601	0.612	0.576	0.601	0.687	*0.789*	
Sharia financial performance	0.441	0.586	0.544	0.543	0.574	0.598	0.689	*0.803*

Note(s): Diagonal elements represent the square root of AVE. CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market culture; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance

Table 3. Path coefficients results

Hypotheses	Paths	Standardized (β)	*t*-value	*p*-value	Decision
H1	CC → GO	0.107	2.714	0.007	Supported
H2	CC → GPR	0.062	1.342	0.180	Not supported
H3	CC → GPD	0.157	2.614	0.009	Supported
H4	AC → GO	0.128	3.174	0.002	Supported
H5	AC → GPR	0.267	3.231	0.001	Supported
H6	AC → GPD	0.317	3.917	0.000	Supported
H7	HC → GO	−0.247	2.541	0.011	Supported
H8	HC → GPR	−0.117	2.172	0.030	Supported
H9	HC → GPD	−0.221	2.318	0.021	Supported
H10	MC → GO	0.257	3.287	0.001	Supported
H11	MC → GPR	0.372	3.614	0.000	Supported
H12	MC → GPD	0.347	3.524	0.000	Supported
H13	GO → SFP	0.342	3.674	0.000	Supported
H14	GPR → SFP	0.172	2.264	0.024	Supported
H15	GPD → SFP	0.182	2.576	0.010	Supported

Note(s): Bootstrapping was performed with 5,000 resamples. CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market culture; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance
Source(s): Authors' own work

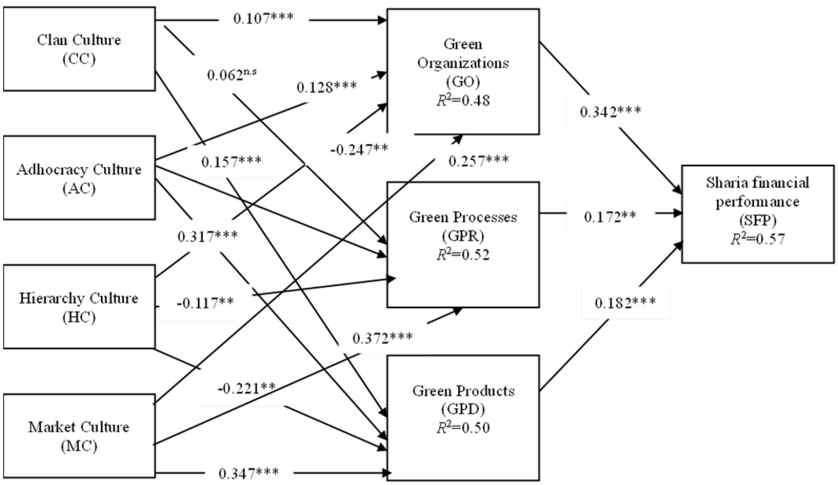

Figure 2. Structural model

Note(s): Standardized path coefficients (β) are reported. R^2 values indicate the amount of variance explained. ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; n.s = not significant. CC = clan culture; AC = adhocracy culture; HC = hierarchy culture; MC = market culture; GO = green organizations; GPR = green processes; GPD = green products; SFP = Sharia financial performance
Source: Authors' own work

green products. Clan culture fosters an environment of trust and openness to change, which encourages green organizational innovation (Zhao *et al.*, 2024; Yan *et al.*, 2025). On the other hand, hierarchy culture, which emphasizes stability, control and structure, creates a more rigid environment that can stifle innovation in this area.

Adhocracy culture and market culture both play a beneficial role in driving the green environmental innovation dimensions. Adhocracy cultures are characterized by a focus on innovation, external engagement and promoting autonomy, which often encourages companies to take more risks in their approach to green environmental innovations (Gürlek and Koseoglu, 2021). While this finding aligns with the competitive logic of innovation, it raises an important conceptual tension within the Shariah context. Market culture is typically associated with aggressive competition, performance pressure and profit maximization, which may appear at odds with Shariah principles emphasizing stewardship (*khalifah*), social welfare (*maslahah*) and long-term ethical responsibility (Cameron and Quinn 2011; Chapra, 2016; Dusuki and Abdullah, 2007).

Contrary to the findings of Gürlek and Koseoglu (2021), this study found a positive relationship between market culture and green environmental innovation. Market culture are centered around competition, maximizing market share and enhancing customer satisfaction (Roscoe *et al.*, 2019). As consumer demand for green products continues to rise, the influence of market culture on promoting green environmental innovation becomes increasingly crucial.

Green organizations, green processes and green products all contribute positively to the Sharia financial performance, aligning with the perspectives of Wang (2019) and Padilla-Lozano and Collazzo (2022). Their arguments, grounded in resource-based theory, suggest that environmental innovations play a crucial role in developing a firm's unique dynamic capabilities. These capabilities, once internalized, become valuable strategic assets for the company. By alleviating stakeholder pressure and enhancing the company's capacity for learning and innovation, green innovations can help reduce operational costs and provide a competitive advantage, ultimately boosting Sharia financial performance. In addition, green environmental innovation helps reduce resource usage and energy consumption (Zhou *et al.*, 2021; Tariq *et al.*, 2019), further supporting the Sharia financial performance. Importantly, within Islamic financial institutions, this relationship reflects more than conventional financial gains. Green innovation contributes to Shariah financial performance by strengthening ethical legitimacy, reducing environmental risk exposure and aligning financial outcomes with *maqasid al-shariah* objectives – particularly the protection of wealth, life and the environment (Zhou *et al.*, 2021; Elkington, 1997; Chapra, 2016; Dusuki and Abdullah, 2007).

This integrated synthesis underscores that Shariah financial performance emerges from the interaction between culture, innovation and governance (Barney, 2001; Padilla-lozano and Collazzo, 2022). Adhocracy and market culture drive the form and intensity of green innovation, hierarchy culture safeguards its religious legitimacy and green innovation acts as the operational bridge linking ethical mandates with financial sustainability (Cameron and Quinn 2011; Wang, 2019). Rather than treating "Shariah" as a peripheral label, the findings demonstrate that Shariah principles shape both the constraints and opportunities through which innovation affects (Chapra, 2016).

4.1 Theoretical implication

This study contributes to the literature on corporate culture, green innovation and Shariah financial performance by highlighting the differentiated roles of organizational culture types in shaping sustainability outcomes within Islamic financial institutions (Cameron and Quinn, 2011; Padilla-lozano and Collazzo, 2022). Beyond confirming positive correlations, the findings reveal structural tensions between innovation-driven cultures and Shariah-based ethical mandates, thereby extending existing theories that often assume alignment between market competitiveness and sustainability outcomes (Barney, 2001; Chapra, 2016).

Specifically, the positive role of market culture in driving green innovation should not be interpreted as unconditionally beneficial (Roscoe *et al.*, 2019). From an Islamic governance perspective, an excessive reliance on market-oriented logic may incentivize symbolic or reputational sustainability practices – commonly referred to as “greenwashing” – where Islamic banks adopt visible green labels or products to meet consumer demand without substantive environmental impact (Delmas and Burbano, 2011; Farook *et al.*, 2011). This insight introduces a “dark side” of market culture in Shariah-compliant settings and suggests that cultural drivers of innovation must be analyzed alongside ethical control mechanisms rooted in *maqasid al-shariah* (Chapra, 2016; Dusuki and Abdullah, 2007).

The study also refines the conceptual understanding of hierarchy culture in Islamic finance by repositioning it as an enabling ethical constraint rather than a purely inhibiting force (Chapra, 2016; Dusuki and Abdullah, 2007). While hierarchy may slow exploratory innovation, it plays a critical theoretical role in preserving Shariah legitimacy and preventing ethically misaligned innovation (Hassan and Aliyu, 2018; Dusuki and Abdullah, 2007). This nuanced interpretation advances Islamic management theory by demonstrating that innovation in Islamic finance is contingent upon compliance-based legitimacy, not merely organizational flexibility.

4.2 Practical implication

From a managerial perspective, the findings suggest that Islamic bank leaders should move beyond generic calls to “foster innovation” and instead adopt explicitly Shariah-compliant sustainability governance mechanisms. For instance, banks can develop Green Key Performance Indicators (Green KPIs) aligned with *maqasid al-shariah*, such as the proportion of financing allocated to environmentally sustainable projects, reductions in operational carbon intensity, or the integration of environmental risk screening within Shariah approval processes. These KPIs would allow managers to balance competitive market pressures with substantive environmental accountability. Embedding sustainability into employee training, performance evaluations and reward systems may support the development of green organizations (Arici and Uysal, 2021). Regulators and SSBs could formalize Shariah-aligned green innovation guidelines by embedding environmental criteria into Shariah governance frameworks, including mandatory environmental impact assessments for large-scale financing approvals (Dusuki and Abdullah, 2007; Chapra, 2016). Such policies would reduce the risk of greenwashing while supporting authentic *maqasid*-driven innovation.

4.3 Study limitations

This study has several limitations. First, it focused only on Shariah-compliant financial institutions in three Indonesian provinces, which may limit the generalizability of the findings. Broader geographical coverage would provide more representative insights. Second, firm-level characteristics such as size, age, or governance were not considered, though these factors may moderate the impact of culture and innovation on performance. Third, the reliance on self-reported survey data raises the risk of response bias; future studies could combine surveys with secondary or qualitative data. Fourth, the cross-sectional design restricts causal inference, suggesting that longitudinal approaches are needed.

5. Conclusion

This study aims to understand how various factors influence the integration of green innovation into business practices and their ultimate impact on financial performance, with a particular focus on Sharia financial outcomes. This research provides practical insights into managing green environmental innovation. It emphasizes the importance of cultivating organizational cultures that support creativity and responsiveness to market dynamics – particularly adhocracy and market-oriented cultures – which positively influence green innovation. Firms should also avoid rigid structures and instead promote flexibility, collaboration and experimentation. Investing in green initiatives across organizations, processes and products, while leveraging external knowledge and optimizing internal resources, can enhance both innovation and Sharia financial performance.

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Corresponding author
Soleh can be contacted at: soleh@unilam.ac.id