

A LITERATURE REVIEW OF UPDATED ISLAMIC CORPORATE GOVERNANCE ELEMENTS: IMPLICATIONS FOR INDONESIA

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ABSTRACT

This study identifies elements of Islamic Corporate Governance (ICG) that contribute to the performance of shariah-compliant firms. A systematic literature review is carried out on 173 relevant articles from the Scopus database, spanning from 2004 to 2024. It identifies five key elements of ICG: (1) Shariah board governance, (2) management and board governance, (3) audit and risk governance, (4) sustainable governance, and (5) Muslim management and board governance. These key elements encompass various sub-elements that have diverse impacts on firm performance across financial, social, and environmental dimensions. The findings offer specific implications for Indonesia, emphasizing the integration of sustainability practices into corporate governance mechanisms and considering distinct approaches to ICG mechanisms for dual-sector performance between Islamic Financial Institutions (IFIs) and non-IFIs.

Keywords: Islam, Islamic corporate governance, Shariah governance, Firm performance, Literature review.

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I. INTRODUCTION

Islamic Corporate Governance (ICG) consists of mechanisms that improve organizational management by defining stakeholder relationships, powers, rights, and obligations based on Islamic values (Mubtadi & Adinugraha, 2022). The ICG has been in place over centuries to address the shifting goals of companies. For instance, within Islamic banks, the ICG requires the establishment of a Shariah Supervisory Board (SSB) to ensure alignment with Sharia principles (Khan, Khan, Uddin, Khan, & Marwat, 2024; Mollah & Zaman, 2015). In the broader context of Islamic business, from a theoretical point of view, various studies emphasize the importance of both profit motives and a commitment to social well-being (Chen & Yu, 2023). However, in practical implementation, economic objectives such as the maximization of shareholders' wealth (Hasan, 2009) persist as a primary driving factor for assessing firm performance. It was only around the 2010s, as noted by Hassan & Harahap (2010), that many Muslim countries began contemplating amendments to mandate companies to consider social and environmental objectives. This shift is further substantiated by the emergence of governance standards regarding the implementation and disclosure of Corporate Social Responsibility (CSR) for Islamic Financial Institutions (IFIs) by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2010). In recent years, companies are also increasingly urged to advocate sustainability agenda for the benefits to both shareholders and stakeholders (Jan et al., 2019). This shift towards sustainability aligns with the growing recognition that responsible and environmentally conscious business practices not only contribute to long-term financial gains but also foster positive relationships with diverse stakeholders, including customers, employees, and the broader community (Baklouti, 2022; Kateb, Nafti, & Zeddini, 2023). In this context, corporate governance has an increasingly crucial role in balancing the interests of all stakeholders (Pranata & Laela, 2020). Several researchers further posit that corporate governance within the Islamic framework expands its role as a conduit for organizational accountability to God (Pahlevi, 2022; Slahudin, 2008), thus expecting companies to uphold the well-being of all of God's creations (Mahboob et al., 2022), including the environment.

Accordingly, research inquiries have evolved to encapsulate the pivotal contribution of ICG to broader firm performance, extending beyond financial metrics to encompass social and environmental dimensions. The multifarious manifestations of ICG mechanisms, influenced by intricate factors such as corporate culture, applicable regulations, and business environments (Jan, Lai, & Tahir, 2021), engender a spectrum of research outcomes. For instance, a study by Boudawara et al. (2023), leveraging cross-national datasets, delineates disparate impacts emanating from governance oversight by Shariah boards vis-à-vis regular boards within Islamic banking. Their findings suggest that Shariah board governance negatively impacts social and environmental performance, while regular board governance yields positive impacts. Furthermore, Grassa, El-Halaby, and Khelif (2023) through meta-analysis find contradictory results regarding the impacts of various governance attributes of Shariah Supervisory Board (SSB) such as size, qualifications, reputation, interlock, and expertise on Islamic banking performance, especially during economic recovery periods. Several empirical studies also employ different theoretical approaches to explain

the positive or negative influences of ICG on firm performance. For instance, the agency theory predicts a negative relationship between board size and firm performance (Al-Malkawi & Javaid, 2018; Aslam & Haron, 2020; Nomran & Haron, 2019), while resource dependence theory asserts a positive relationship (Ghosh, 2017; Prasojo, Yadiati, Fitrijanti, & Sueb, 2022). Moreover, certain elements of ICG pose challenges in measurement, spanning various socio-psychological and management disciplines, such as expertise, diversity, and networks (Kok, Giorgioni, & Farquhar, 2022), necessitating ongoing evaluation of their efficacy and quality to obtain meaningful finding. Therefore, it is important to review and evaluate previous empirical studies to generalize and validate extensive research conducted in this field. This review is particularly motivated by the need to explore the diversity of ICG elements contributing to firm performance in today's dynamic business landscape, which is increasingly focused on sustainability issues.

Based on the foregoing discussion, we state our research questions as follows:

- RQ1. What are the elements of ICG that drive the firm's financial, social, and environmental performance?
- RQ2. What are the implications of these ICG elements in Muslim-majority countries, especially in Indonesia?

Apart from addressing the uncertainties and discrepancies found in previous research on ICG, this study also contributes to the expansion of the current classification of ICG elements, which is predominantly limited to regular and Sharia dimensions (Buallay, 2019; Jan et al., 2021). Furthermore, this study offers the potential for reconfiguring ICG elements to develop alternative mechanisms that could enhance firm performance in Muslim-majority countries. This is particularly important for Indonesia, the largest Muslim-majority country in the world (World Population Review, 2023), where unique socio-economic and cultural factors necessitate a tailored approach to ICG. By focusing on Indonesia, this study can contribute to addressing specific regional challenges and opportunities, thereby advancing the understanding and application of ICG in a context with substantial global influence.

The rest of the paper is structured as follows. Section II provides a literature review of the concept and definition of Islamic corporate governance and past studies. Next, section III sets out the methodology and section IV presents the results. Finally, section V concludes.

II. LITERATURE REVIEW

2.1. Definition of Islamic Corporate Governance

Linguistically, the term governance in Islam can be associated with the Arabic word "*hakam*", or "*al-hawakamah*" or "*hawkama*" which refers to the concept of government, regulation, and decision-making (Hasan & Al Timimi, 2015; Lewis, 2005). Broadly, the term 'governance' can be interpreted as the act of governing, which, in turn, delegates the authority of decision-making to those chosen by individuals to serve the overall objectives of the community (Ahmed, 2011). Numerous studies indicate that corporate governance in Islam has historical roots

in the time of the Prophet Muhammad SAW which can be found in the practices of Shura and Hisba. *Shura*, or consultative council, guided business transactions, trade, and fair distribution (Lewis, 2005; Rahman, 1998), while *Hisba*, led by market supervisors called *Muhtasib*, protected public interests based on Islamic moral values (Bhatti & Bhatti, 2010; Rahman, 1998). Notably, Prophet Muhammad himself served as the first *Muhtasib* (Jan et al., 2021; Rahman, 1998).

In the context of Islamic business, the term corporate governance surfaces in the publication by Rahman (1998), defining it as a governance framework that integrates regulatory aspects grounded in Islamic law and ensures adherence to Islamic moral teachings within the corporation. Furthermore, Iqbal & Mirakhor (2004) supplement the definition of corporate governance within the Islamic system, encompassing principles governing individual rights, society, state, laws regulating property ownership, and contractual frameworks. Lewis (2005) expounds on ICG within a more extensive commission, incorporating diverse responsibilities towards suppliers, customers, competitors, and employees, as well as addressing the spiritual and worldly needs of the Islamic community. Many researchers also concur that the concept of ICG shares similarities with conventional governance regarding stakeholder interests, yet places emphasis on values and principles derived from the Quran and Hadith (Hasan, 2009; Hashim, Mahadi, & Amran, 2015; Sadek, Rahim, & Abas, 2018; Yuspin & Fauzie, 2023). Consequently, ICG transcends mere resource management, embodying a profound act of worship (Tsafe & Rahman, 2013).

2.2. Previous Study

Several studies have reviewed and mapped various governance elements contributing to corporate performance. Given the Shariah-oriented nature of ICG, its elements naturally differ from conventional ones which only focus on the boards and management (Chaudhary, 2021). Ghayad (2008) employs a descriptive study to define core elements in corporate governance within Islamic banks, encompassing investor relations and relationships with stakeholders such as staff, employees, customers, clients, suppliers, and public interest groups like trade unions. Jan et al. (2021) posit that ICG encompasses two primary elements: Shariah governance and corporate governance. They further utilize Shariah board attributes as indicators for the first element and ownership structure as indicators for the second, both considered to contribute to the sustainability performance of Islamic banks across economic, social, and environmental dimensions. In line with this, Minaryanti & Mihajat (2024), through a systematic literature review, emphasize the importance of Shariah board governance elements in enhancing the financial performance of Islamic banks. Through a comparative analysis between Malaysia and Morocco, Franzoni & Ait Allali (2024) using a qualitative case study identify several crucial ICG elements such as board representative, Shariah board, nominating committee, remuneration committee, risk management committee, audit committee, and governance committee. Unfortunately, previous studies have presented ICG elements in a fragmented manner and have not provided updated references regarding ICG elements in the SDG era.

III. METHODOLOGY

This study employs a systematic literature review since it is a dependable, reproducible, and scientific method for building a knowledge base (Lim, Kumar, & Ali, 2022; Tranfield, Denyer, & Smart, 2003). The data were collected from the Scopus database, known for its accessibility, reliability, and breadth of sources (Sdrolia & Zarotiadi, 2019). To obtain coverage of ICG elements in business performance across different historical periods, article selection was made without time restriction, encompassing the most recent research available at the time the database was accessed in January 2024. Various combinations of keyword strings were used to search for relevant information in article titles, abstracts, and keywords (see Table 1).

Table 1.
Combination of Keyword Search

Keywords	No. of Articles
"Islamic corporate* Governance** OR "sharia* Governance** OR "Shari'a* Governance**" OR "Corporate* Governance**" AND Bank* OR "Islamic Institution**" OR IFI* OR "Islamic Financ* Institution**" OR "Islamic Organization**" AND Performance* OR Sustain*	904
"Islamic corporate* Governance**" OR "sharia* Governance**" OR "Shari'a* Governance**" OR "Corporate* Governance**" AND bank* OR "Islamic Institution**" OR IFI* OR "Islamic Financ* Institution**" OR "Islamic Organization**"	32
"Islamic corporate* Governance**" OR "sharia* Governance**" OR "Shari'a* Governance**" AND Performance* OR Sustain*	59
Total collection	995

Following the collection of articles, a screening assessment was conducted utilizing the Covidence application protocol. Among the 995 collected articles imported into the application, specific eligibility criteria were applied during the screening of titles, and abstracts, and subsequently during the full-text review (refer to Table 2). This process resulted in 173 final articles (see Figure 1).

Table 2.
Eligibility Criteria

Title and abstract	Full-text
<ul style="list-style-type: none"> • English articles • Peer-reviewed article • Purpose(s) and finding(s) discussed about ICG and firm performance • Using Islamic unit analysis (Islamic banks, shariah-compliant firms, Islamic organizations, etc) • Quantitative study 	<ul style="list-style-type: none"> • ICG as an explanatory variable • Firm performance as a response variable • Examination of ICG at the organizational/ institutional level • Provide specific elements/ indicators/ proxies (articles that present ICG as an index, can be included only if the significance of each element used in the index is individually explained). • Clear presentation of a significance test to ascertain the impact.

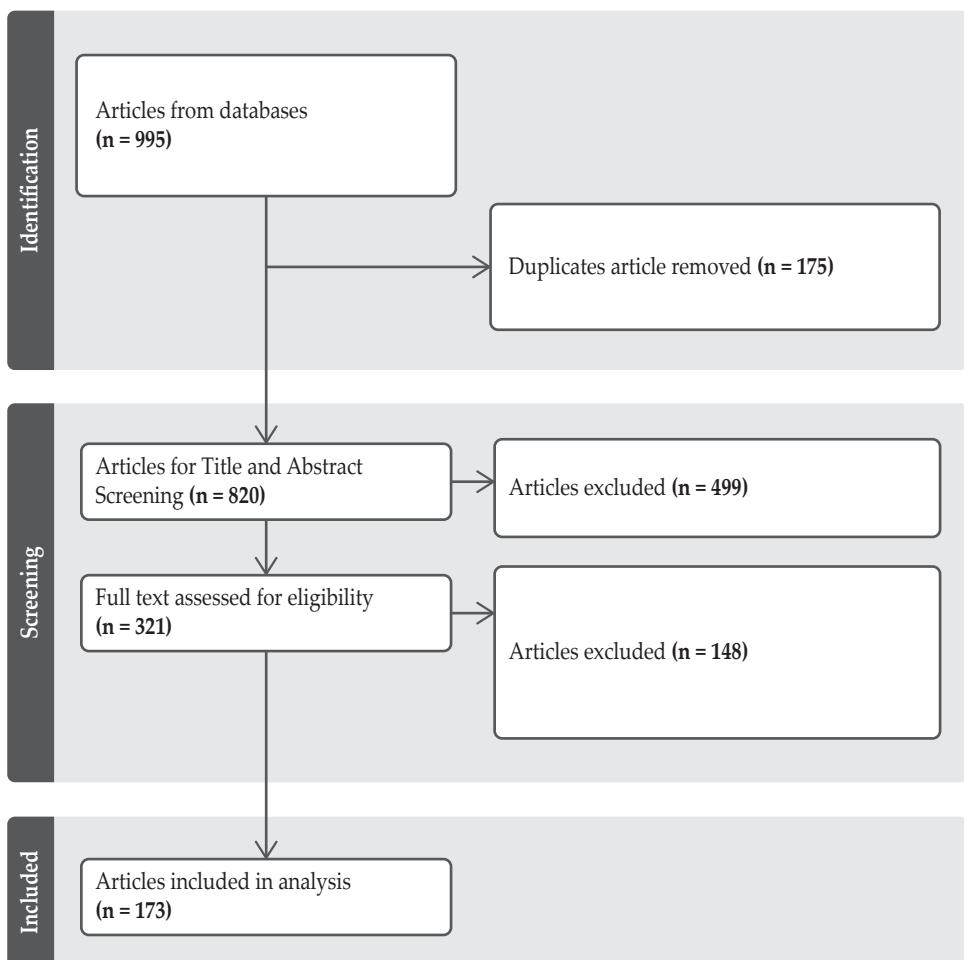


Figure 1.
Screening Protocol

These final articles were then analyzed through an in-depth content reading to identify the elements of ICG that influence firm performance across financial, social, and environmental aspects. Concerning financial performance, the selected articles encompass those employing accounting-based and market-based measurements (such as ROA, ROE, ROI, and Tobins-Q). Particularly for studies focusing on Islamic banking, stability indicators (e.g., z-score) are also taken into account. Furthermore, social performance evaluation includes CSR scores, zakat contributions, and other pertinent aspects. Meanwhile environmental performance assessment centers around environmental scores and sustainability indicators. It is noteworthy that several articles explore multiple aspects of firm performance concurrently; thus, we capture all significant findings for each performance aspect through tabulation. However, non-significant effects are not included. In cases where elements are measured using dummy variables, consistency in

measurement standards is ensured. For instance, if SSB Gender is measured with female=1 and Male=0, and the result in articles was a positive significance on firm performance. Then, another study employed the reverse measurement (Male=1 and female=0) also generated positive significance, the effect was then adjusted to negative. Once all elements are identified, they are categorized into primary elements, each comprising sub-elements representing indicators or proxies of ICG.

IV. RESULTS AND ANALYSIS

4.1. Article Distribution

The preliminary result outlines the article distribution (see Table 3), spanning from 2004 to 2024. The majority of these articles focus on Islamic banking (68.8%) as the object of study, and primarily employs the Southeast Asian region (31.8%) as research scope.

Table 3.
Article Distribution

	Publish Year				Total	%
	2004- 2011	2012- 2016	2017- 2020	2021- 2024		
Organization Setting						
IFIs	0	2	3	2	7	4.0%
Islamic Bank	2	21	47	49	119	68.8%
Islamic Charity Organization	0	0	0	1	1	0.6%
Sharia Mutual Fund	0	0	1	0	1	0.6%
Shariah-compliant Firm	3	3	16	21	43	24.9%
Takaful	0	0	0	2	2	1.2%
Total	5	26	67	75	173	100%
Continent Setting						
Asia	0	1	3	1	5	2.9%
Central Asia	0	1	0	0	1	0.6%
Gulf Cooperation Council (GCC)	1	3	9	2	15	8.7%
GCC and non-GCC	0	1	0	0	1	0.6%
GCC and Southeast Asia	0	2	2	2	6	3.5%
Middle East	1	3	10	15	29	16.8%
Middle East and North Africa	0	1	1	4	6	3.5%
North Africa	0	3	0	0	3	1.7%
Northeast Africa	0	1	0	0	1	0.6%
OIC Countries	0	0	0	3	3	1.7%
South Asia	0	4	3	7	14	8.1%
Southeast Asia	3	5	26	21	55	31.8%
Various Countries	0	1	13	20	34	19.7%
Total	5	26	67	75	173	100%

Table 4 displays the journal sources of the final articles along with their Scimago Journal Ranks in 2023. The top three journals are the Journal of Islamic Accounting and Business Research (Q3) with 14 articles, Corporate Governance (Bingley) (Q1) with 7 articles, and Banks and Bank Systems (Q2) with 7 articles. The remaining articles are published in both ranked and unranked journals related to the themes/fields of corporate governance, banking, accounting, and sustainability.

Table 4.
Journal Sources

Rank	Journal (frequency)
Q1	<p>Corporate Governance (7); Pacific-Basin Finance Journal (5); Corporate Governance : An international Review (4); Journal of Business Ethics (3); Sustainability (Switzerland) (3); Asia-Pacific Journal of Business Administration (2); Emerging Markets Review (2); Journal of Applied Accounting Research (2); Journal of International Financial Markets, Institutions and Money (2); Research in International Business and Finance (2); Business Strategy and The Environment (2); Finance Research Letters (1); FWU Journal of Social Sciences (1); Global Finance Journal (1); Heliyon (1); International Journal of Bank Marketing (1); International Journal of Accounting and Information Management (1); International Journal of Productivity and Performance Management (1); Journal of King Saud University – Science (1); Journal of Accounting and Organizational Change (1); Journal of Banking and Finance (1); Journal of Management and Governance (1); Journal of Open Innovation: Technology, Market, and Complexity (1); Managerial Auditing Journal (1); SAGE Open (1); Social Responsibility Journal (1); Journal of Accounting in Emerging Economies (1).</p> <p style="text-align: right;">Total: 50</p>
Q2	<p>Banks and Bank Systems (7); International Journal of Islamic and Middle Eastern Finance and Management (5); Cogent Business and Management (4); Journal of Islamic Marketing (3); Australasian Accounting, Business and Finance Journal (2); Journal of Management and Governance (2); International Journal of Emerging Markets (2); International Journal of Finance and Economics (2); Journal of Financial Reporting and Accounting (2); International Journal of Energy Economics and Policy (1); Journal of Management and Organization (1); Review of Quantitative Finance and Accounting (1).</p> <p style="text-align: right;">Total: 32</p>
Q3	<p>Journal of Islamic Accounting and Business Research (14); Journal of Risk and Financial Management (4); International Journal of Business and Society (3); International Journal of Business Governance and Ethics (3); International Journal of Financial Studies (3); Managerial Finance (3); Asian Economic and Financial Review (2); Journal of Islamic Monetary Economics and Finance (1); Al-Shajarah (1); Asian Academy of Management Journal of Accounting and Finance (1); Asian Review of Accounting (1); Bulletin of Monetary Economics and Banking (1); Discrete Dynamics in Nature and Society (1); Global Journal Al-Thaqafah (1); Humanities and Social Sciences Letters (1); Indian Journal of Finance (1); International Journal of Business Excellence (1); ISRA International Journal of Islamic Finance (1); Journal of Eastern European and Central Asian Research (1); Journal of Financial Regulation and Compliance (1); Journal of International Women's Studies (1); Review of Financial Economics (1).</p> <p style="text-align: right;">Total: 47</p>
Q4	<p>Quality - Access to Success (3); Management and Accounting Review (2); Journal of King Abdulaziz University: Islamic Economics (2); International Journal of Monetary Economics and Finance (1); Multinational Finance Journal (1).</p> <p style="text-align: right;">Total: 9</p>

Table 4.
Journal Sources (Continued)

Rank	Journal (frequency)
Unranked	Corporate Ownership and Control (6); Journal of Asian Finance, Economics and Business (5); Asian Social Science (3); Middle East Journal of Scientific Research (2); Accounting (2); Management & Sustainability: An Arab Review (2); Accounting Analysis Journal (1); Advanced Journal of Technical and Vocational Education (1); Advanced Science Letters (1); Entrepreneurship and Sustainability Issues (1); Humanomics (1); International Journal of Accounting and Finance in Asia Pasific (1); International Journal of Economics and Financial Issues (1); International Journal of Professional Business Review (1); International Journal of Recent Technology and Engineering (1); International Journal of Supply Chain Management (1); International Letters of Social and Humanistic Sciences (1); Journal of Business and Retail Management Research (1); Procedia Economics and Finance (1); Studies of Applied Economics (1); The Journal of Developing Areas (1).
Total: 35	

4.2. The Recent Elements of ICG

In-depth content analysis identifies five primary elements of ICG that exert influences on firm performance. We carefully classified each sub-element to the primary element based on the similarity of their characteristics, and also considering the classification used from several previous studies.

4.2.1. Shariah Board Governance

Shariah board governance is classified based on various attributes and characteristics of the SSB following several prior research (Buallay, 2019; Safiullah, Hassan, & Kabir, 2022; Safiullah & Shamsuddin, 2018). Shariah board governance refers to the management or oversight carried out by the Shariah board (Ghayad, 2008), which is specifically established in IFIs. The Shariah board governance consists of several sub-elements as presented in Table 5.

Table 5.
The Element of Shariah Board Governance

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
SSB size	+	65.1%	+	77.8	+	66.7%
SSB interlock	+	61.5%	+/-	50%	N/A	N/A
SSB Meeting	+/-	50%	-	100%	-	100%
SSB Reputation	+	57.1%	+	100%	N/A	N/A
SSB Independence	+/-	50%	-	100%	-	100%
SSB Expertise	+	57.1%	+	66.7%	N/A	N/A
SSB Education	+	72.7%	+	66.7%	N/A	N/A
SSB Tenure	+	75%	N/A	N/A	N/A	N/A
SSB Female	+	80%	N/A	N/A	N/A	N/A

Table 5.
The Element of Shariah Board Governance (Continued)

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
SSB Foreign	-	100%	N/A	N/A	N/A	N/A
SSB Age	+/-	50%	N/A	N/A	N/A	N/A

Note: "+" means a positive effect. "-" means a negative effect. "+/—" means both positive and negative effects are prevalent in the literature. "N/A" means non-significant effect in the entire literature or no literature that examines this sub-element.

The first sub-element, and the one most commonly examined in the literature, is the SSB size. SSB size demonstrates a positive relation to financial performance (Ajili & Bouri, 2018; Farag, Mallin, & Ow-Yong, 2018; Mollah & Zaman, 2015; Quttainah, Cocco, & Al-Zufairi, 2017), social performance (Nomran & Haron, 2019; Nurkin, Rohman, Rofiq, & Mukhibad, 2018; Yusoff, Azhari, & Darus, 2018), and environmental performance (Hashim et al., 2015; Muhammad, Ariff, Majid, & Abidin, 2021). Adhering to resource dependence theory, a sizable SSB effectively reduces a company's reliance on external resources, minimizes uncertainty, and provides vital knowledge and resources for company success (Baklouti, 2022; Hashim et al., 2015; Quttainah et al., 2017). This also applies to the SSB cross-membership in other Islamic institutions, known as SSB interlock, which offers social networking experiences and broader resource access for companies (Grassa, 2016; Mansoor et al., 2020). Furthermore, an optimal number of SSB meetings is required to fortify firm performance, as these regular gatherings contribute to more effective monitoring of company transactions (Baklouti, 2022). However, an excessive number of meetings may incur high preparation costs and procedural burdens on SSBs (Alsartawi, 2019) that might reduce some aspects of firm performance. Additionally, the SSB's reputation, exemplified by its membership in a reputable Islamic organization, plays a pivotal role in enhancing firm performance, especially in financial and social aspects. Reputable SSB members typically possess extensive knowledge about the industry (Nomran et al., 2018) thereby enhancing the firm's credibility in the eyes of stakeholders, which is in line with stakeholder theory (Wijayanti & Setiawan, 2022). Meanwhile, the presence of SSB independence provides an additional layer of monitoring and accountability that significantly contributes to the performance of Islamic banks (Almutairi & Quttainah, 2017). However, the independent members in the SSB are associated with heightened agency costs and additional control burdens in preparing the data necessary to be able to make decisions, potentially exerting a negative impact on firm performance (Alsartawi, 2019).

Table 5 also illustrates that SSB expertise, education, and tenure play crucial roles in enhancing firm performance, particularly in the financial and social domains. SSBs with pertinent expertise in economics, finance, and accounting (Aljughaiman, Salama, & Verousis, 2024; Mukhibad, Setiawan, & Rochmatullah, 2022) exhibit good capabilities in integrating modern banking issues and Sharia principles (Safiullah et al., 2022; Safiullah & Shamsuddin, 2018), thereby optimizing their decision-making processes (Grassa & Matoussi, 2014). Meanwhile, the

educational background of SSB members can enhance their knowledge capacity, facilitating knowledge transfer among the board and contributing to their overall performance (Kok et al., 2022). Similarly, SSB tenure can assist members in accumulating knowledge over time, enhancing specific company information and skills that lead to improved firm performance (Kok et al., 2022).

In contrast, SSB demographic characteristics, including gender, age, and nationality, yield varied influences on company performance. Female SSB members are known for their superior communication skills (Baklouti, 2022), and disciplined approach, which contributes to effective supervision within the company (Mansoor et al., 2020). In terms of age, younger SSB members often bring contemporary insights on various issues, while their older counterparts typically contribute extensive experience in innovation (Khan et al., 2024). Furthermore, foreign SSB members can enhance managerial expertise, foster ethical collaboration, and stimulate creativity and innovation (Khan et al., 2024).

4.2.2. Management and Board Governance

Management and board governance is classified based on several sub-elements that involve the various attributes and characteristics of the Board of Directors (BOD), the Board of Commissioner (BOC), and the top management (represented by the CEO). While Safiullah, Hassan, & Kabir (2022) classify such elements under the term “regular board governance,” we use the term “management and board governance” to clarify the presence of management functions. The management and board governance consists of several sub-elements as presented in Table 6.

The first and the most assessed sub-element in the literature is BOD size, which has a positive impact on financial, social, and environmental performance. Still aligned with the resources dependence theory, a large board signifies extensive internal capabilities beneficial for strategy formulation and shareholder rights protection (Haider, Khan, & Iqbal, 2015; Hashim et al., 2015). Firm performance can also be enhanced through effective close monitoring by determining the ideal board composition consisting of outsider or non-executive directors and independent directors (Bawaneh, 2020; Habtoor, 2020; Haris, Yao, Tariq, Javaid, & Ain, 2019). Independent BOCs are also needed to control the firm’s social performance since they represent the interests of all other stakeholders (Mukhibad & Setiawan, 2020), without material interest in the company (Darwanto & Chariri, 2019; Hooy & Ali, 2017). Conversely, as predicted by the agency theory, BOC size has a predominantly negative influence on a firm’s financial performance, as it creates additional bonding costs in two-tier system firms that have a large BOD (Sulistiani & Tjahjadi, 2022). On the other hand, CEO duality, as indicated by the separating roles of the chairman of the board and CEO, has varying effects on firm performance. While CEO duality provides benefits in reducing conflicts (Al-Matari, Homaid, & Alaaraj, 2016; Haron, 2018), it also yields additional controlling power that leads to more private benefits (Ben Zeineb & Mensi, 2018). BOD members with a reputation, often associated with a specific public image related to politics or government (Haris et al., 2019; Khalil & Ben Slimene, 2021), may be beneficial for firm performance since they can get wider access to capital (Almutairi & Quttainah, 2017), but they are also vulnerable in complying with

regulations on employment equality and environmental policies (Jahid, Rashid, Hossain, Haryono, & Jatmiko, 2020).

Meanwhile, the appointment of founders and family members as CEOs or Directors could bring dynamic issues to company performance. They may have loyalty and insider knowledge that is useful for the company (Mamatzakis et al., 2023), but too many family members on the board can reduce internal information disclosure (Abu-Tapanjeh, 2009) thereby hindering the firm's maximum performance. Furthermore, BOD and CEO compensation which is measured by their remuneration, salary, bonus, and other benefits (Al-Faryan, 2021; Chou & Buchdadi, 2018; Saad, 2009) is mostly found to motivate the CEO and BOD to maintain the desired performance for the company (Chou & Buchdadi, 2018; Haris et al., 2019).

Table 6.
The Element of Management and Board Governance

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
BOD Size	+	63%	+	80%	+	66.7%
BOC Size	-	100%	N/A	N/A	N/A	N/A
BOD Composition	+	56.3%	N/A	N/A	N/A	N/A
BOD Independence	+	63%	+	60%	+/-	50%
BOC Independence	+	66.7%	+/-	50%	N/A	N/A
CEO Duality	+	68.4%	-	100%	N/A	N/A
BOD Meeting	+	65.2%	+	100%	-	66.7%
BOC Meeting	+	100%	+	100%	N/A	N/A
BOD Interlock	+	66.7%	N/A	N/A	N/A	N/A
CEO Interlocks	+	100%	N/A	N/A	N/A	N/A
BOD Reputation	+/-	50%	-	100%	N/A	N/A
BOD Founder	-	100%	N/A	N/A	N/A	N/A
CEO Founder	+	100%	+	100%	N/A	N/A
BOD Compensation	+	83%	+	100%	N/A	N/A
CEO Compensation	+	100%	N/A	N/A	N/A	N/A
BOD Education	+	92.3%	-	100%	N/A	N/A
BOD Tenure	-	66.7%	-	100%	N/A	N/A
CEO Tenure	-	75%	-	100%	N/A	N/A
BOD Experience	+	66.7%	N/A	N/A	N/A	N/A
CEO Experience	+	100%	N/A	N/A	N/A	N/A
BOD Female	+	66.7%	+/-	50%	-	100%
CEO Female	+	57.1%	+	100%	N/A	N/A
BOD Age	+	75%	N/A	N/A	N/A	N/A
CEO Age	+/-	50%	-	100%	N/A	N/A
BOD Foreign	-	57.1%	+	100%	N/A	N/A
CEO Foreign	+	100%	N/A	N/A	N/A	N/A
BOD Ethnic	+	100%	N/A	N/A	N/A	N/A

Note: "+" means a positive effect. "-" means a negative effect. "+/-" means both positive and negative effects are prevalent in the literature. "N/A" means no significant effect found in the entire literature or no literature that examines this sub-element.

Some technical attributes of CEOs and BODs such as their education and experience also positively contribute to firm performance. Directors who have good educational qualifications, expertise, and all mandatory skills related to the business environment can understand the company's performance better (Bansal, Samontaray, Aljalalma, & Khadim, 2023) and contribute to strategic success (Hamdan, Khamis, Anasweh, Al-Hashimi, & Razzaque, 2019). They also can make good decisions based on their experience and knowledge about the companies' relevant issues (Kallamu & Saat, 2015). However, an excessively long tenure of directors and executives in the company can increase agency costs, thereby reducing fund performance (Sofi & Yahya, 2020).

Additionally, several demographic characteristics of BODs and CEOs, such as gender, age, nationality, and ethnicity predict various influences on firm performance. The presence of women on the BODs or as CEOs is considered to provide better monitoring and consultation services for the company's financial performance (Hassan & Marimuthu, 2018b), and they tend to be more motivated by the firm's social goals (Melis & Nawaz, 2024). Unfortunately, they are less likely to engage in environmental commitment (Muhammad et al., 2021). In terms of age, older CEOs and directors usually bring more experience and knowledge that contributes to enhancing firm performance (Grassa & Matoussi, 2014), however, they may also adhere to traditional methods that pose risks to stakeholder trust (Melis & Nawaz, 2024). Meanwhile, foreign participation in CEO or BOD promotes innovation and positive changes in the company (Hassan & Marimuthu, 2018b), thereby promoting good governance (Jahid et al., 2020). Similarly, ethnic diversity within the BODs also contributes to firm performance through a variety of expressions and ideas, providing added value to the company (Hassan & Marimuthu, 2018a).

4.2.3. Audit and Risk Governance

Audit and risk governance is classified based on several sub-elements that involve various attributes of the audit committee (AC) and risk management committee (RMC). Almost all sub-elements of audit and risk governance show a positive influence on overall firm performance (see Table 7). Unfortunately, not much evidence is found in the article regarding its impact on environmental performance.

The top sub-element that is widely assessed in the literature is AC size which posits a positive influence on firm performance especially in financial and social aspects. The significant number of audit committees, as explained by agency theory, can minimize agency problems by enhancing the quality of financial reporting, reducing information asymmetry, and mitigating fraud risks (Al-Matari, Hazaee, Senan, Mgammal, & Mohamed, 2022; Al-Matari et al., 2016; Athar, Chughtai, & Rashid, 2023; Fauzi, Basyith, & Foo, 2017). A larger AC can also enhance the monitoring capabilities of the board (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). Similarly, the independence among AC members also promotes the effective implementation of financial reporting standards (Alzeban, 2020) and enhances corporate sustainability disclosures (Ur Rehman, Farid, & Naeem, 2023). Furthermore, frequent AC meetings could lead to better financial performance (Al-Matari et al., 2016; Almoneef & Samontaray, 2019) by enhancing the committee's

understanding of the company's situation and enabling effective intervention to reduce financial fraud (Al-Matari et al., 2016; Kateb et al., 2023). AC meetings also serve to disclose more social information, resulting in achieving corporate social performance (Umar, Firmansyah, Danlami, & Al-Faryan, 2024).

Table 7.
The Element of Audit and Risk Governance

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
AC Size	+	58.8%	+/-	50%	N/A	N/A
AC Independence	+	63.6%	+	100%	+	100%
AC Meeting	+	57.1%	+	100%	N/A	N/A
Remuneration Committee	+	66.7%	+	100%	N/A	N/A
RMC Size	+/-	50%	N/A	N/A	N/A	N/A
RMC Meeting	+	100%	N/A	N/A	N/A	N/A

Note: "+" means a positive effect. "-" means a negative effect. "+/-" means both positive and negative effects are prevalent in the literature. "N/A" means no significant effect found in the entire literature or no literature that examines this sub-element.

Moreover, the remuneration committee is included in the audit and risk governance element due to its relevance to risk disclosure and the establishment of formal and transparent remuneration policies and procedures (Arsad, Said, Yusoff, & Ahmad, 2021). The resource dependence theory supports the idea that the size of the remuneration committee brings higher experience and skills to design compensation packages aligning management and board actions with the company's interests (Arsad et al., 2021). Furthermore, agency theory explains that the size of RMC signifies increased resources to address agency problems (Aslam & Haron, 2020). Likewise, the frequency of RMC meetings can oversee overall corporate risk-taking behavior and reduce agency conflicts (Aljughaiman et al., 2024; Hassan et al., 2019; Jallali & Zoghlami, 2022).

4.2.4. Sustainable Governance

Sustainable governance is classified based on several sub-elements that involve various attributes with functions related to corporate sustainability initiatives. The classification is adopted by recent studies that incorporate sustainability practices in ICG (Abdullah et al., 2024; Jan et al., 2019, 2021). Sustainable governance encompasses several sub-elements that are still infrequently addressed in the literature, as seen in Table 8.

Table 8.
The Element of Sustainable Governance

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
Sustainability Committee	N/A	N/A	+	100%	N/A	N/A
Chief Sustainability Officer	N/A	N/A	N/A	N/A	N/A	N/A
CEO Philanthropic	+	100%	+	100%	N/A	N/A
Sustainability Commitment	+	100%	N/A	N/A	+	100%

Note: "+" means a positive effect. "-" means a negative effect. "+/—" means both positive and negative effects are prevalent in the literature. "N/A" means no significant effect found in the entire literature or no literature that examines this sub-element.

The first sub-element, the sustainability committee, also known as the ESG or environmental committee, is formed to formulate, implement, and evaluate sustainability policies and initiatives systematically and progressively (Fitriasari, 2023). This sub-element has been shown to influence social performance (Muntaha & Haryono, 2021), but there is a lack of evidence regarding its impact on financial and environmental performance in selected literature. Using legitimacy theory, Abdullah et al. (2024) highlight that companies establish sustainability committees simply to create a positive public image and legitimacy to meet stakeholder demands without a strong commitment to addressing environmental issues on a larger scale. Additionally, there is no evidence in the reviewed articles that the presence of a Chief Sustainability Officer contributes to company performance. This may be because their current roles tend to be used only as symbolic tools to fulfill corporate obligations and meet stakeholder demands, rather than ethical responsibilities (Fitriasari, 2023).

In addition, CEO philanthropy, which is explained through upper-echelon theory as a personal characteristic that provides positive perceptions to stakeholders, can contribute to social goals in the organization (Melis & Nawaz, 2024), such as personally covering the costs of performing the Hajj for underprivileged communities or distributing basic food items during the month of Ramadan (Melis & Nawaz, 2024). Further, the sustainability commitment shows a positive relation to the financial and environmental performance of the firm. The sustainability commitment refers to the disclosure of sustainability or ESG or ethical commitment in the firm's vision and mission (Hashim et al., 2015), which can also be measured with an ethical commitment index by management (Aliani, Alsalih, & Hamza, 2022). Based on the assumptions of the resource-based view theory, the design of a sustainability vision or mission helps companies adopt better strategies by considering the competencies and demands of the external environment in which they have to operate (Hashim et al., 2015). In the context of ICG, ethical commitment can support the CEO's religious involvement and desire to comply with Sharia requirements (Aliani et al., 2022)

4.2.5. Muslim Management and Board Governance

Muslim management and board governance is classified based on several sub-elements that involve various attributes in management, the board, and other committees. This classification is established because some studies specifically use these elements as representations of ICG in Shariah-compliant firms (Haron et al., 2022). Meanwhile, in IFIs, it is almost certain that all governance elements are Muslim, hence no research has been found in this case that examines Muslim attributes in the governance of IFIs. Therefore, this classification is an important finding proposed as an element of governance in Shariah-compliant non-IFI firms (i.e. companies listed in the Shariah stock index but not included in the IFI sector). In addition, the religious characteristics in ICG may not be fully captured in traditional economic behavioral assumptions but also the requirements of religious governance in maximizing shareholder utility (Kok et al., 2022). Sub-elements of Muslim management and board governance are shown in Table 9.

The first sub-element is Muslim BOD, measured by the majority of Muslim members on the BOD. Through upper-echelon theory, Muslim BODs are considered to prioritize ethical values over high remuneration incentives as catalysts for optimal company performance (Haron, 2018; Hassan & Marimuthu, 2017, 2018b, 2018a). Stakeholder theory also elucidates that Muslim BODs conduct their business activities and practices morally and ethically as it can influence stakeholders' perceptions of the firm (Haron, 2018). Additionally, upper-echelon theory explains that Muslim CEOs, Muslim chairmen, and Muslim owners reflect their values and cognitive biases, which can affect their strategic choices and behaviors in both financial performance and corporate social responsibility (Alazzani, Wan-Hussin, & Jones, 2019; Ooi & Hooy, 2022; Surya & Rahajeng, 2023). On one hand, the implementation of religious values among these Muslim leaders may lead them to behave conservatively and avoid business competition (Hooy & Ali, 2017), which may negatively impact company performance.

Table 9.
The Element of Muslim Management and Board Governance

Sub-Element	Financial Performance		Social Performance		Environment Performance	
	Majority Sign	% Articles	Majority Sign	% Articles	Majority Sign	% Articles
Muslim BOD	+	66.7%	+	100%	-	100%
Muslim CEO	+	66.7%	+	100%	-	100%
Muslim Chairman	-	100%	+	100%	-	100%
Muslim Owner	-	100%	N/A	N/A	N/A	N/A
Muslim Independent BOD	N/A	N/A	N/A	N/A	-	100%
Muslim Membership (Hanafi, Hanbali, Maliki, and Shaf'i)	+	100%	N/A	N/A	N/A	N/A

Note: "+" means a positive effect, "-" means a negative effect, "+/−" means both positive and negative effects are prevalent in the literature. "N/A" means no significant effect found in the entire literature or no literature that examines this sub-element.

As regard to environmental performance, the sub-elements of Muslim BOD, Muslim CEO, Muslim Chairman, and Muslim Independent BOD have a negative influence (Haron et al., 2022; So, Haron, Gui, Princes, & Sari, 2021). This is due to the tendency that the presence of Muslim corporate leaders on board and management may hinder sustainability disclosure due to on-field behavior not aligning with Islamic ethics (So et al., 2021). On the other hand, the diversity of board and management membership in Hanafi, Hanbali, Maliki, and Syafi'i has a positive influence on financial performance (Hassan & Marimuthu, 2018b).

4.3. Implications: Indonesian Case

The findings of this research have primary implications for the integration of key ICG elements into corporate business practices, especially in Muslim-majority countries, such as Indonesia. Companies situated in Muslim-majority countries may consider transitioning to ICG mechanisms and implementing updated governance elements to support their business performance by aligning business practices with Islamic principles.

Specifically, drawing from 14 articles examining ICG within Indonesia, several implications emerge to support the country's business climate, especially as it serves as a global hub for Islamic finance in Southeast Asia. First, shifting the focus of Shariah-compliant companies in Indonesia entails not only financial performance but also social and environmental performance. This can be achieved through initiatives such as enhancing sustainability practices and social responsibility programs. For Islamic banking bound by stringent Shariah principles, efforts may be emphasized through the role of the SSB, for instance, by increasing zakat funds to promote social initiatives and corporate social responsibility activities (Hidayati, Muhamad, & Marfuah, 2023; Nurkhin et al., 2018), increasing support for education aid (Mukhibad et al., 2022; Pranata & Laela, 2020), and the distribution of interest-free financing (*qardh*) for social welfare (Mukhibad & Setiawan, 2020). Effendi et al. (2023) also recommend increasing investment in Information Technology to bolster the sustainability of Islamic banks in Indonesia. Second, strengthening internal mechanisms as an effort to fulfil good corporate governance focuses on promoting Islamic business ethics and sustainable practices, such as appointing Muslim CEOs and BOD (So et al., 2021; Surya & Rahajeng, 2023), appointing independent boards and commissioners (Darwanto & Chariri, 2019; Mas'ud et al., 2023; Sulistiani & Tjahjadi, 2022), forming ethics committees, and promoting gender diversity (So et al., 2021). Specifically, Shariah-compliant firms should integrate their internal corporate governance mechanisms for Shariah screening assessment (Imamah, Lin, Suhadak, Handayani, & Hung, 2019). For Islamic banking, this task is entrusted to the SSB, under the regulations of the Bank of Indonesia (Basiruddin & Ahmed, 2020; Savitri et al., 2020). However, for non-IFIs without the presence of an SSB, the responsibility for overall corporate governance falls solely on the BOD and CEO (Hidayati et al., 2023). This raises concerns about whether corporate governance aligns with Shariah values. In this regard, Muslim management and board governance can be proposed as an alternative mechanism. Practically, this entails appointing a Muslim corporate leader or assessing specific religious qualities when appointing CEOs or BODs as in line with the recommendation by

Surya & Rahajeng (2023). Muslim board and management governance can also serve as a *Shura* council alongside the National Shariah Board which functions as external mechanisms of ICG in Indonesia. Building upon this argument, we recommend the alternative ICG mechanism in the dual sector between IFIs and non-IFI firms in Muslim-majority countries, particularly focusing on Indonesia, as depicted in Figure 2.

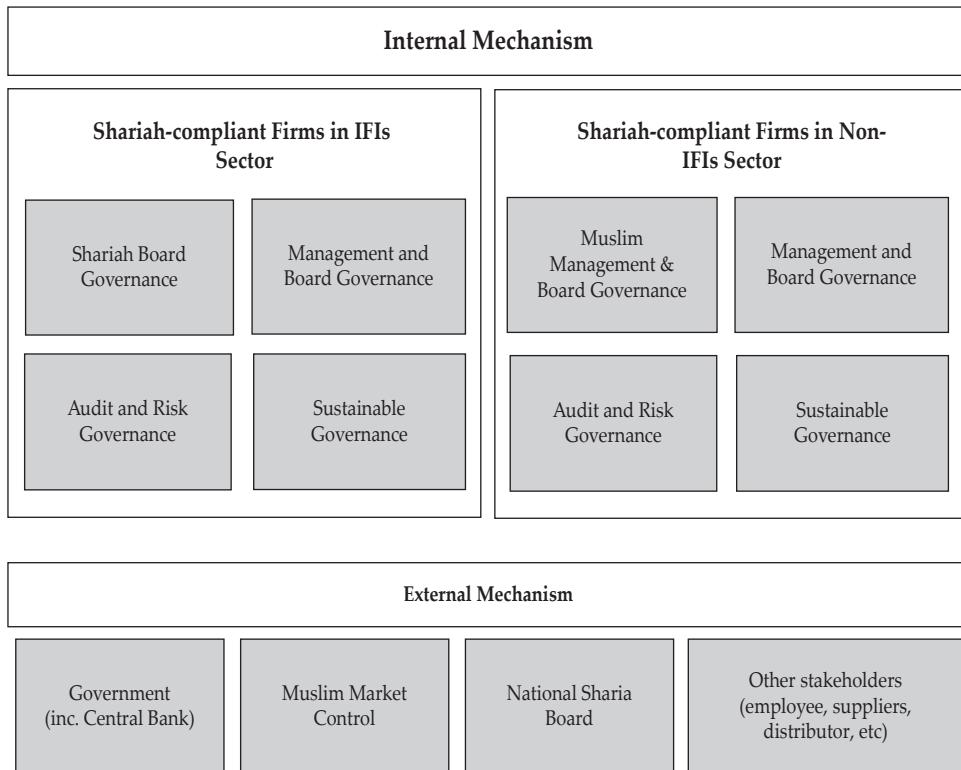


Figure 2.
ICG Mechanism in Dual Sector Performance

This alternative ICG Mechanism recommends that policymakers, such as the Bank of Indonesia, the Financial Services Authority, and the National Sharia Council, implement regulations with specific requirements for companies seeking inclusion in the Shariah stock index. These regulations would advocate for companies, not mandated to appoint an SSB, to establish Muslim board and management governance along with supporting guidelines. This includes enhancing Sharia financial literacy among board members and management, providing Sharia operational training for Muslim CEOs and BODs, developing sustainability and Islamic ethical business indices, and promoting Islamic work ethics. Hence, it signals to investors that Indonesia is committed to upholding Islamic principles in its business practices, potentially attracting more investments

and partnerships and increasing Indonesia's reputation as a global leader in the Islamic finance ecosystem.

V. CONCLUSION

This study identifies five primary elements of ICG, each comprising various sub-elements that can serve as strong predictors of company performance, not only in financial aspects but also in social and environmental aspects.

This study validates that ICG mechanisms are strongly aligned with the goals of Shariah (*Maqashid Shariah*), which include preserving wealth, safeguarding the community (*ummah*), and protecting the environment. These principles of Maqashid Shariah resonate with the framework of the triple bottom line, encapsulated by the tagline "people, planet, and profit," which emphasizes that businesses should not only pursue economic gains but also contribute positively to society and the environment. In the context of ICG, this alignment with the triple bottom line reinforces the idea that Islamic values inherently support a holistic approach to corporate governance, where financial success is balanced with social responsibility and environmental stewardship.

This study also clarifies that some identified elements of ICG may not differ significantly from those used in conventional corporate governance. However, the key distinction lies in the integration of Islamic values within each element of the ICG structure. These values may be abstract and challenging to evaluate without the representation of appropriate governance elements. Therefore, the practical implications of this study recommend a dual-sector ICG mechanism approach. In IFIs, this is achieved through the governance of the Shariah board, which ensures adherence to Islamic principles. In non-IFIs, the presence of a Muslim board and management serves as an alternative means of embodying and measuring these values, particularly in maintaining the Islamic reputation for investors and stakeholders. This alignment underscores the critical role that Islamic values play in guiding corporate governance and achieving broader ethical and societal objectives.

Lastly, this study unveils some limitations. First, the scope of this study is confined to Scopus databases, potentially limiting the breadth of the literature reviewed. Future investigations could broaden their exploration by including more expansive databases such as the Web of Science. Additionally, since this study relies on existing literature, the evolving nature of ICG may introduce new elements in the future that may not have been discussed in this study. One such element to consider in future research is religiosity. In this study, the element of Muslim management and board is measured by religious affiliation rather than religiosity. Although religiosity has been noted in some studies (e.g., Surya & Rahajeng, 2023), it is challenging to measure religiosity, particularly in research relying on secondary data common in financial studies. Consequently, many researchers use religion as a proxy, as it is easier to identify and measure objectively. Religion, as a tool for social changes, encourages individuals to align with specific group norms (Nakpodia et al., 2020). Some studies suggest that religion can influence corporate strategic decisions (Volonté, 2015; Díez-Esteban et al., 2019). In the context of ICG, the Muslim board and management embody Islamic values that guide corporate

governance towards achieving *falah* (eternal success and happiness), aligning business objectives with broader social and ethical goals. This finding highlights the need for future research to explore more nuanced measurements of religiosity, which could deepen our understanding of how Islamic values are integrated into corporate governance and their impact on firm performance.

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