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Insight into Corporate Governance in Islamic Finance: A Systematic Review of Literature

Quanita Rehman[a], Dr.Akhtiar Ali[b], [a]Ph.D. Scholar, Bahria Uuniversity Karachi Campus, [b]Associate Professor, Bahria University, Karachi Campus

The concept of corporate governance (CG) in Islamic banking (IB) has gained attention of researchers in the last two decades. This review paper aims to provide broad and comprehensive review of existing literature on CG in Islamic banks(IBs). The research on CG in IBs has mainly been empirical conducted mostly in Gulf Cooperation Council (GCC) and South Eastern region with a few conceptual studies. A sound theoretical base for Islamic CG studies is still missing. The results suggesting role of Shariah Supervision are elusive. The impact of emerging economies and country legal systems as antecedents of CG have not been thoroughly covered in the literature. In the field of research this topic needs to be covered more rigorously and exhaustively. CG in IBs is an emerging area of research and lack comprehensive review studies. Owing to the fact, this review paper aims to provide broad, comprehensive review of existing literature on corporate governance in IBs. which can be employed for further research about the subject matter.

Key words: *Islamic banking, Islamic Financial Institutions, Corporate governance, Agency Theory, Stakeholder Theory, Shariah Supervisory Board*

1. Introduction

The Organisation for Economic Cooperation and Development (OECD) has defined corporate governance (CG) as “set of relationships between company’s management, board of directors (BoD), shareholders and other stakeholders” (OECD, 2015).

The field of corporate governance (CG) has emerged to mitigate the agency issues arising due to separation of ownership and control rights in corporations (Fama & Jensen, 1983). The European and Anglo-American code of CG are early efforts towards the development of CG mechanism (Ezzine, 2018). OECD developed Principles of Corporate Governance in 1999 initially which were later updated in year 2004 and 2015. OCED principles are recognised as benchmark for assessment of CG mechanism and are employed by Basel Committee on Banking Supervision (BCBS) as guidelines on CG of banking sector (OECD, 2015).

The fiduciary nature of financial institutions and information asymmetry makes corporate governance important for financial industry (Grais & Pellegrini, 2006). In addition, the governance becomes more complex when the corporate structures deviate from their conventional forms as in the case of Islamic banks (IBs) (Safieddine, 2009). The agency problems are complex in IBs as their activities have to comply to Shariah (Islamic law) in addition to generally accepted CG mechanisms (Mollah & Zaman, 2015).

Islamic Finance Stability Board (IFSB) and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) have extended the CG standards set by OECD and BCBS to meet peculiar governance needs of Islamic financial institutions (IFIs). IFSB published Guiding Principles for Corporate Governance only for IFIs CG in the year 2006 and AAOIFI issued governance principles for IFIs in a Statement on Governance Principles (Ginena, 2014). The standards and guiding principles adopted by both organizations lay down rules and principles of governance in IFIs, increase stakeholders' knowledge about governance and a way towards compliance of standards.

Though, certain governance challenges are quite similar to other financial institutions but a few governance issues are more dominant in IFIs (Safieddine, 2009) ; (Grais & Pellegrini, 2006). Some important governance challenges for IBs include:

- compliance to Shariah
- presence of unrestricted investment account holders (IAH)
- the fact that IBs operate in emerging economies with weak institutional and governance structures (Darmadi, 2013). The first two factors have been well covered by the academicians while the last issue could not gain much coverage in literature.

CG in IBs is an emerging area of research and lack comprehensive review studies to present an overall picture of application of concept. The earlier review studies in the field of Islamic banking have mainly focused upon theory, practice, efficiency, profitability and corporate social responsibility of IBs (Abedifar et al., 2015) ; (Kumar et al., 2017) ;(Hassan & Aliyu, 2018);(Zafar & Sulaiman, 2019). But not any broad and comprehensive review study could be found related to CG in Islamic banking. This review aims to fulfil the aforementioned gap.

2. Review method and structure:

This article aims to undertake a comprehensive review of literature on corporate governance in Islamic banking. The Prisma framework (Figure:1) has been employed to make the literature search exhaustive. The objective is to provide an overview of the quality work published in journals included in Social Sciences Citation Index (SSCI) and Emerging Sciences Citation Index (ESCI) and journals focused on Islamic finance. The academic literature on CG in Islamic banking has been collected initially by randomly searching academic databases including Wiley, Taylor and Francis, Springer, Emerald Insight and Science Direct. The journals included in SSCI and ESCI have been selected for further search of related articles. The scope of the journal is given due consideration to ensure that it covers fields of Islamic banking and corporate governance. In the next phase keywords including Islamic banks, Islamic financial institutions and corporate governance are used to retrieve articles published from year 2000 and onwards. After collecting a voluminous list of articles their abstract is read and only those studies are selected which have relevance to the subject area of research. A few working papers have also been included owing to their significance in the literature. In addition, citations within the articles are also considered to enhance the list of studies for the review.

The review study is broadly classified in two parts i.e. theoretical and empirical studies. Under theoretical studies section CG theories application in IBs and concept of Islamic CG is discussed. The empirical study section is sub-divided according to main themes of research in the literature. The last part contains concluding remarks and future research directions.

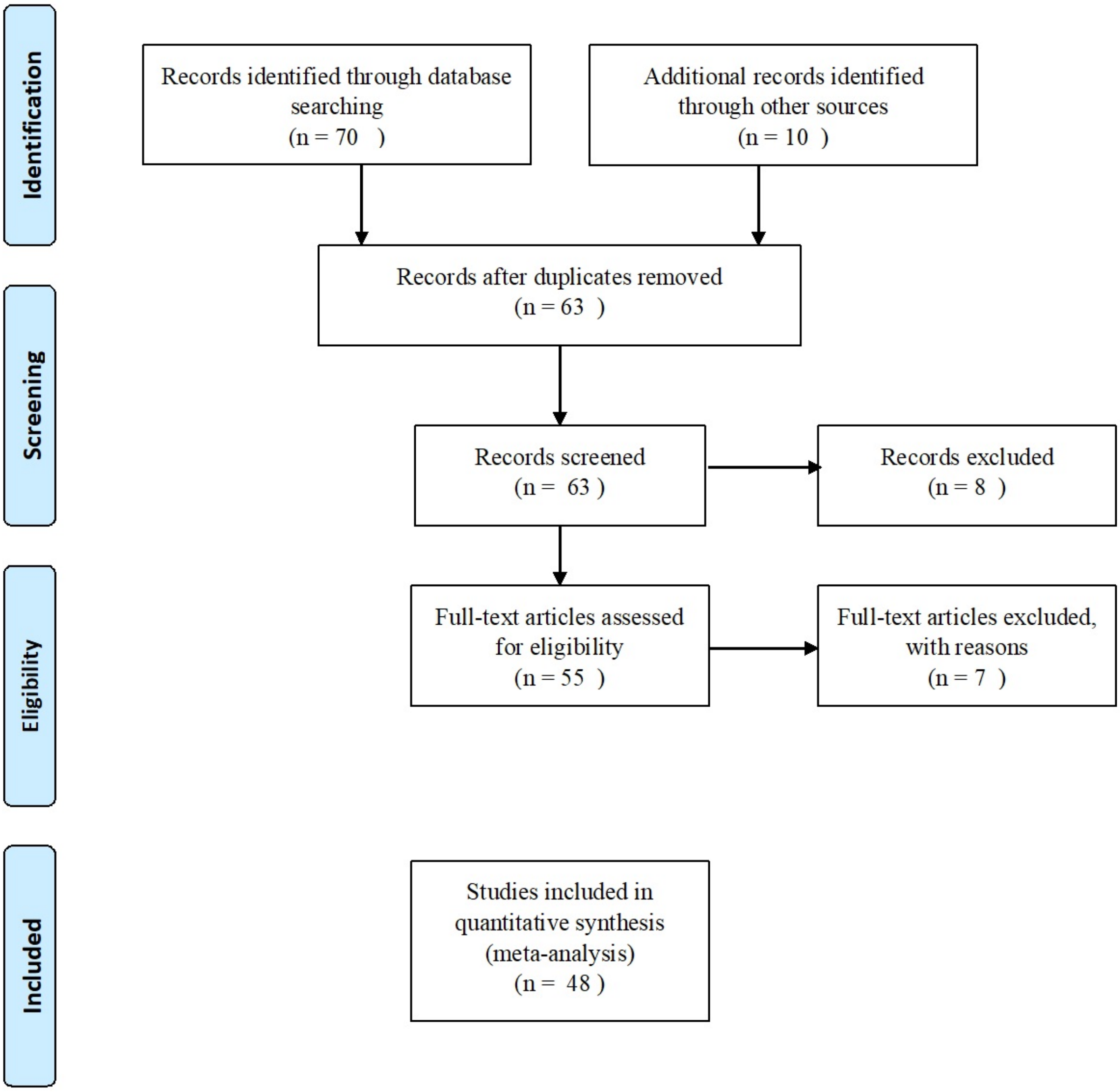

Figure 1: PRISMA Flow Diagram

Moher D, Liberati A, Tetzlaff J, Altman DG, The PRISMA Group (2009). Preferred Reporting Items for Systematic Reviews and MetaAnalyses: The PRISMA Statement. PLoS Med 6(7): e1000097. doi:10.1371/journal.pmed1000097

3. Conceptual Studies:

3.1: Corporate Governance theories:

Agency theory being considered as a core theory in the domain of CG has been employed in IB literature to evaluate CG mechanism in IBs (Darmadi, 2013); (Hakimi *et. al.,* 2015) ; (Grassa, 2016); (Farag, Mallin and Ow-Yong, 2018). The agency theory mainly concentrates upon shareholders' return maximization. However, the basic premise of Islamic finance concentrates upon social benefit along with maximization of return (Alnasser & Muhammed, 2012). It is required to incorporate more theoretical ways to understand the relationship different among stakeholders (Abu-Tapanjeh, 2009). Hence, recognising the difference in objectives and governance structure of Islamic banking some other theories including Stakeholder, Resource Dependency, Legitimacy and Stewardship have also been used for development of theoretical framework of many other studies (Amalina Wan Abdullah et al., 2013); (Bukair & Abdul Rahman, 2015); (Hashim et al., 2015); (Haridan et al., 2018). In a conceptual paper (Abdullah, Mohammed & Muhammed, 2017) have shed light on the differences between agency theory and IB theoretical underpinnings and considered stakeholder theory to better explain the role of Shariah Supervisory Board (SSB) in IB.

The mainstream literature has not addressed enough upon the CG mechanism of organizations which have religious foundations like IBs (Quttainah & Almutairi, 2017). The literature on CG in IBs have employed theories from mainstream literature but a strong validated theoretical base is missing in literature which can incorporate CG variables particular to Islamic banking.

3.2: Concept of Corporate Governance in Islamic Banking:

The concept of Islamic CG is different as it needs to uphold Maqasid-ul-Shariah (Abd Razak, 2018). Any Islamic economic entity is premised upon the divine guidance (Choudhury & Hoque, 2006) so IBs need to conduct business in accordance with Shariah rulings.

Shariah governance is an integral part of CG mechanism in IBs. The governance features peculiar to IBs include factors like "Zakat" (Islamic levy), Shariah compliance of products and transactions and establishment of SSB (Alnasser & Muhammed, 2012). In addition, governance mechanism is required to be based upon Islamic property rights and contracts, and protection of stakeholders' rights (Abdullah et al., 2015).

In principle CG is very close to Shariah (Islamic law) which calls for good governance and collaboration among stakeholders including government and community members. This collaboration is termed as "hisbah", which is defined as a practice for inviting public for doing good and avoiding deeds forbidden under Shariah (Abd Razak, 2018). The relevance of concept of “hisbah” for banking industry is in the form of internal check and balance mechanism which can be performed by SSB to ensure compliance of banks’ activities to Shariah.

In a comparative study of Islamic principles of CG and OECD 2004 rules (Abu-Tapanjeh, 2009) remarked that Islamic businesses have their own functional and moral values and Islamic CG principles have prolonged existence and have broader horizon. There are two main frameworks provided for elaboration of the concept in Islam CG literature, one calls for participative decision making and other demands for protection of rights of all stakeholders rather than just shareholders (Bukair & Abdul Rahman, 2015).

(Bhatti & Bhatti, 2009) have presented an Islamic CG Model of governance practices including disclosure and transparency based upon Shariah principles. (Alam, 2013) has remarked that CG in Islamic perspective is considerably different and advocates sharing of knowledge for learning.

In a nutshell, IBs being an Islamic corporate entity have to uphold Maqasid-ul-Shariah. Islamic CG concept is based upon unity of divine knowledge (Hasan, 2002). It is the transparency and disclosure within the organization which align private and social interest. This is followed by continuous inter and intra organization learning and knowledge driven discourse (Choudhury & Hoque, 2006). Such a system would require minimal regulatory mechanism and reduce conflict between social and private objectives. Islamic CG is said to resemble stakeholder model of CG as welfare of stakeholders is considered consistent with Shariah.

Table 1: Conceptual Studies

Sr.No.	Reference	Type of Paper	Country	Overview
1.	(Satkunasingam and Shanmugam, 2004)	Conceptual	Malaysia	Political interference, cronyism between governments, banks and businesses can prove detrimental to good governance practices. It is recommended that "mudarbha" type accounts should be backed by collateral from borrowers.
2.	(Abu-Tapanjeh, 2009)	Conceptual	-	Islamic businesses have their own functional and moral values. The study compared OECD 2004 rules of CG with Islamic CG and concluded that Islamic CG principles have prolonged existence and broader horizon
3.	(Grais and Pellegrini, 2006)	Policy Research Working Paper	-	IBs need idiosyncratic CG mechanism to fulfil their financial objectives and social aspirations.
4.	(Choudhury and Hoque, 2006)	Conceptual	-	The paper compares and contrasts Islamic and mainstream CG concept. Islamic corporations are market driven being ethically and socially responsible.
5.	(Alnasser and Muhammed, 2012)	Review	Malaysia	The competence and independence of SSB coupled with internal review units and external auditors can help safeguarding stakeholders' rights in IBs. The foremost challenge faced by IBs include protection of investment account holders.
6.	(Choudhury & Alam, 2013)	Review	-	IBs need to uphold Shariah and imperfections need to be removed. The need is to create alignment among objectives. The study calls for reforms and networking across IFIs
7.	(Ginena ,2014)	Conceptual	-	The paper has described in detail the internal and external causes of Shariah risk and developed a tool for assessment of Shariah risk. The duty of BoD, senior management and SSB is outlined to cope with Shariah risk that can lead to financial instability.
8.	(Abdullah,Mohammed & Muhammed , 2017)	Conceptual	-	Stakeholder theory better explain the role of SSB in IB. The paper highlights the importance of quantification of SSB role in IB and impact of SSB upon other stakeholders of the banks.
9.	(Abd Razak, 2018)	Conceptual	-	A centralized Shariah governance model can bring more harmony and consistency in adoption of CG standards. The study has further highlighted demanding issues of CG mechanism within the IFIs including independence, qualification and interlocking SSB members.

4. Empirical Studies:

The CG framework depends upon the legal systems, regulatory guidelines, accounting standards and institutional environments of the countries where the businesses operate in. CG is required to be based upon principles rather than being based upon absolute rules and regulations to fulfil varying objectives among businesses and countries and seen as guidelines for supervision in different environments (Abu-Tapanjeh, 2009). An autonomous socio-political and a healthy economic environment is a pre-requisite for enhancement of CG (Abdel-Baki & Leone Sciabolazza, 2014).

A number of empirical studies have looked into the differences in governance structures and practices among countries. The empirical literature on CG has mainly focused upon issues like CG measurement and disclosure, Shariah governance and role of Shariah Supervisory Board (SSB) in different regions.

4.1: Corporate Governance measurement in IBs:

A noteworthy amount of literature has focused upon assessment and measurement of CG practices through indices and development of theoretical frameworks. Different approaches have been applied for the measurement of CG in IBs. Additionally, items peculiar to Islamic CG have also been employed to gauge governance practices. The most commonly used method include development of CG disclosure indices and content analysis of published reports.
4.1.1: CG disclosures: In terms of CG disclosures, a notable amount of work has been done across regions. In an exploratory study on CG disclosure on seven Indonesian Islamic banks (Darmadi, 2013) found low average disclosure score and most under represented items included audit and internal control functions. However, board members and risk management disclosures are promptly covered in annual reports. In an empirical study (Safieddine, 2009) studied corporate governance mechanism in IFIs in GCC. The results suggest that certain governance features including BoDs, Shariah Supervision Boards (SSB) and control departments have been put in place but features like audit and governance committee are lacking.

In a study of CG of IBs and IB windows in Pakistan (Bukhari et al., 2013) notified IBs are deficient in disclosures and recommended policy modification for disclosures of banks. (Amalina Wan Abdullah et al., 2013) have studied SSB and "zakat" (Islamic levy) disclosures in annual reports of Malaysian and Indonesian Islamic banks. The study has revealed limited disclosure regarding SSB and their activities, allocation of profits and losses and zakat payments. In another study investigating the extent of voluntary CG disclosure in GCC and South Asian IBs by (Abdullah et al., 2015) it has been notified that strong CG mechanism lead to higher level of CG disclosure. (Grassa, 2018) studied GCC IBs and notified that CG disclosure has increased with time but IBs scored very low on disclosure except in Bahrain and Saudi Arabia. Additionally, CG disclosure is negatively related to block ownership and levered

IB and disclosure is more for mature, large and listed banks in countries having high transparency index. (Ghosh, 2018) has reported that due to CG reforms introduced in MENA disclosures related to risk and board independence have considerable impact upon profitability and stability of IBs. (Neifar & Jarboui, 2018) notified a positive relationship between independent directors and disclosures whereas negative relationship is found between CEO duality, SSB and disclosures.

The results of the studies on CG disclosure have shown that though disclosures have increased with time but are still at a low level. As reported there is much variability across IBs due to voluntary nature of CG practices. (Elamer et al., 2019)

4.1.2: Corporate Governance Disclosure Indices: In an exploratory study on CG disclosure on seven Indonesian Islamic banks (Darmadi, 2013) developed CG Disclosure Index with variables based upon prior studies (Haniffa & Hudaib, 2007); (Kusumawati, 2007) and (IFSB, 2009) guidelines. (Abdel-Baki & Leone Sciabolazza, 2014) designed CG Index divided into six core themes and sub themes based upon feedback from various stakeholders. The framework would further be enhanced and improved through constant interaction and feedback between the stakeholders. The proposed CG paradigm is based upon social and ethical demand as core pillar. The study has indicated that financial performance can be improved with good CG in place. In a study by (Amalina Wan Abdullah et al., 2013) a SSB disclosure index has been formulated with the help of literature review, standards and guidelines of AAOIFI and IFSB. In addition, Malaysian and Indonesian guidelines and regulations are also incorporated in the developed index. A study by (Grassa, 2018) employed S&P scoring methodology of CG disclosure comprising of three sub categories and 98 items in total. The study revealed that financial transparency is disclosed more as compared to ownership structure, board structure and investor rights. (Zaki et al., 2014) have used ethical identity index developed by (Haniffa & Hudaib, 2007) to find out the relationship between CG disclosure and financial performance of IBs. The study indicated a negative relationship between certain CG variables like disclosure of vision, mission, BoD, SSB and financial performance and positive relationship between financial performance and disclosure of products and services and commitment towards employees.

Table 2: CG Disclosure and Disclosure Indices:

Sr.No	Reference	Type of Paper	Country	Overview
1.	(Safieddine, 2009)	Empirical	GCC countries	In IFIs certain governance features including BoDs, SSBs and control departments have been put in place but other governance instruments like audit and governance committee are missing. IFIs scoring high on governance index are more profitable and have better stock performance. The study calls for representation of IAHs on board.
2.	(Zouari &Taktak , 2012)	Empirical	15 Countries	Ownership is concentrated in IBs and governance committees are generally not present in IBs. Disclosures related to ownership structure, stakeholder concerns and governance policy might impact profitability and risk and stakeholder policies impact stability of IBs.
3.	(Darmadi, 2013)	Empirical	Indonesia	A CG Disclosure Index is developed and disclosure score is calculated. The average disclosure score tended to be low and most under represented items included audit and internal control functions. However, board members and risk management disclosures are promptly covered in annual reports.
4.	(Abdel-Baki and Leone Sciabolazza, 2014)	Empirical	Asian and Middle East IBs	A CG Index has been developed based upon feedback from various stakeholders. A CG paradigm has been proposed based upon social and ethical demand which can be improved through constant interaction and feedback between the stakeholders. The study showed that financial performance can be improved with good CG in place.
5.	(Bukhari et. al., 2013)	Empirical	Pakistan	The study covers CG dimensions including SSB, audit and disclosures of IBs and IB windows in Pakistan. In case of IBs audit and disclosure impact management of banks while increase in effectiveness of BoD would further help improving CG. For IB windows enhancing SSB would strengthen other dimensions of CG. Improved governance would increase customer satisfaction and trust in IBs.
5.	(Amalina Wan Abdullah, Percy and Stewart, 2013)	Empirical	Malaysia and Indonesia	A disclosure index has been formulated and employed in the study. The study has revealed limited disclosure regarding SSB and their activities, allocation of profits and losses and zakat payments. The expertise and cross membership of SSB are positively associated with disclosure of Shariah supervision.
6.	(Zaki, Sholihin and Barokah, 2014)	Empirical	Asian IBs	The study has attempted to find out the relationship between CG disclosure and financial performance of IBs. The study indicates a negative relationship between certain CG variables like disclosure of vision, mission, BoD, SSB and financial performance and positive relationship between financial performance and disclosure of products and services and commitment towards employees.
7.	(Neifar and Jarboui, 2018)	Empirical	34 IBs in different countries	The study notified a positive relationship between independent directors and disclosures whereas negative relationship is found between CEO duality, SSB and disclosures

8.	(Abdullah, Percy and Stewart, 2015)	Empirical	67 IB in GCC and Southeast Asia	Strong SSB could not much influence CG disclosure other determinants of CG disclosure include size of IBs, political freedom and legal system within the country. The bank size positively influences the CG disclosure while less political freedom and following common law negatively impacts voluntary CG disclosures.
9.	(Grassa, 2018)	Empirical	GCC	The CG disclosure has increased with time but except Bahrain and KSA, IBs in the rest of countries scored very low on CG disclosure. Financial transparency is disclosed more as compared to ownership structure, board structure and investor rights in depth.CG disclosure is negatively related to block ownership and levered IBs. CG disclosure is more for mature large and listed banks in countries having high transparency index.
10.	(Ghosh, 2018)	Empirical	MENA	Due to CG reforms introduced in MENA certain categories of disclosures which are related to risk and board independence have considerable impact upon profitability and stability of IBs.
11.	(Elamer, Ntim, Abdou and Pyke, 2019)	Empirical	MENA	The study has notified poor structure of SSB in MENA. The board independence is quite in line with OCED guidelines while block shareholding is higher than recommended best practices. The study has further emphasized the role of SSB in IBs showing SSB quality enhances risk disclosure in IBs. In addition, block ownership, board independence and country level governance quality also impact risk disclosures in IBs

4.2: CG Measurement and performance benchmarks:

Another strand of studies has looked into impact of CG variables upon different performance benchmarks for IBs across regions. The failure of Enron in 2001, collapse of Turkish Ihlas Finance House (Grais & Pellegrini, 2006) and financial crisis 2008 have furthered the researchers' interest in CG. The collusion of board members, excessive risk taking and audit failures are amongst the list of reasons for such financial failures (Bukair & Abdul Rahman, 2015).

CG theories highlight agency costs and prescribe mechanisms which can be employed for coping with such issues. Of all the CG variables researchers have mainly studied impact of board size, CEO duality, board structure and SSB upon various performance yardsticks of IBs.

4.2.1: Impact of CG on financial performance: (Hakimi *et. al.,* 2015) looked into the impact of CG variables upon IBs' financial performance. The study indicated that board duality, size, SSB size and leverage enhance IBs' performance. In another study (Bukair & Abdul Rahman, 2015) have looked for the impact of governance variables upon IBs performance in GCC region. It is notified by the study that both board size and non-executive directors impact performance negatively while bank size and non-duality of CEO have positive impact on IBs' performance. In a comparative study between IBs and CBs (Mollah & Zaman, 2015) studied impact of SSB, board structure and CEO power on performance of both types of banking institutions. The study finds more independent board members and small sized boards at IBs. The study notified decline in performance with more independent board members on the board.

(Mollah et al., 2017) have found out that CG mechanism positively affects the financial performance measured in terms of return on assets (ROA). (Farag et al., 2018) have investigated the nature of relationship between IBs' board structure and financial performance. The size of the SSB is found to be positively related to financial performance of the IBs. (Nawaz, 2019) has contributed further to CG literature by investigating impact of CG mechanism and investment in human capital upon performance of IBs before, during and after the financial crises. According to the study the market performance of full-fledged IBs is directly related to lax governance while strong CG positively impacts the market performance of IB windows. It has been notified that board size and CEO duality positively affect the market performance of IBs.

The empirical studies on impact of CG mechanism upon performance have provided varied results. Though, a modest board size with independent board members is generally preferable. A few studies have found a positive relationship between board size and performance (Hakimi *et. al.,* 2015). Notwithstanding, a few other studies (Bukair & Abdul Rahman, 2015); (Mollah & Zaman, 2015) have found the relationship otherwise. (Mollah et al., 2017) through the construction of CG index has shown positive impact of governance mechanism upon performance of IBs while (Nawaz, 2019) has shown direct relationship between performance and lax governance in IBs. Hence, it is iterated that due to nascent-ness and paucity of research in CG of IBs boardroom characteristics demand more rigorous and exhaustive research.

4.2.2: Impact of CG on financial stability and other performance benchmarks: In addition to studies focusing upon the relationship of CG and financial performance there has been an effort towards understanding the impact of CG upon benchmarks like financial stability, credit ratings, operational efficiency and green compliance.

The financial crisis of 2008 triggered many unresolved inquiries about governance of financial institutions. The practitioners and academics while looking for underlying reasons of financial crisis have deliberated weak governance as one of the epic centre of crisis (Hakimi *et. al.,* 2015). Consequently, studies later to financial crisis have investigated the impact of CG upon the stability and efficiency of the banks.

(Mollah et al., 2017) studied the effect of governance structure in IBs on their risk taking behaviour. The product and transaction complexities and better capitalization of IBs is distinct from CBs which allows for risk seeking attitudes resulting into better financial performance. In a study (Grassa, 2016) investigated impact of CG variables upon credit ratings of IBs in GCC and South East Asia IBs and reported higher ratings for the IBs in South East Asia. (Ben Zeineb & Mensi, 2018) have investigated the effect of CG mechanisms on IBs efficiency and risk in GCC. The CG enhances the efficiency level of IBs in the region through more risk taking behaviour. State-owned banks are found more prone to risk taking behaviour and are more efficient. (Lassoued, 2018) studied CG indicators as determinants of financial stability in Malaysian IB industry. The study concluded that size of BoD has no impact while the number of independent directors on the board positively impacts the financial stability among IBs. The study advocates decentralized governance mechanism to ensure stability in IBs. (Ghosh, 2018) has studied impact of disclosures upon stability of IBs. The disclosures related to risk management and board independence have considerable impact upon stability of IBs. (Sharmeen et al., 2019) have studied CG variables as antecedents of green compliance by the IBs and conventional banks and impact of green compliance upon the performance, reputation and accountability of banks. The CG variables including size of BoD, independent directors and auditors' type are studied as predictor of environmental compliance by the banks. The BoD size negatively impacts the green compliance. Owing to the insufficient number of independent directors on boards it is found that independent directors have no significant impact on green compliance. Auditors' type also has no effect upon green compliance by the banks. In another study investigating operational risk disclosure by IBs in MENA by (Elamer et al., 2019)have found board independence is quite in line with OCED guidelines while block shareholding is higher than recommended best practices. In addition, block ownership, board independence and country level governance quality also impact risk disclosures in IBs.

In addition to financial performance many studies have looked into the impact of CG mechanism on measures like stability **(**Lassoued, 2018), efficiency (Ben Zeineb & Mensi, 2018), credit rating (Grassa, 2016), green compliance (Sharmeen et al., 2019) and risk taking behaviour. The impact of CG mechanism tends to be favourable upon a wide array of performance benchmarks. However, drawing concrete conclusions would require more consensus among researchers about potential impact of CG mechanism in IBs.

Table 3: CG Measurement and Performance:

Sr.No	Reference	Type of Paper	Country	Overview
1.	(Hakimi et. al., 2015)	Empirical	Bahrain	The study indicated that board duality, size, SSB size and leverage enhance IBs' performance.
2.	(Bukair and Abdul Rahman, 2015)	Empirical	GCC	It is notified in the study that both board size and non-executive directors have negative impact upon IBs' performance in GCC region. IBs under investigation contribute very less for social cause. Bank size and chairman independence positively impacts the performance.
3.	(Mollah and Zaman, 2015)	Empirical	86 IBs and 86 CBs	The size of boards is small at IBs but performance seems to decline with more independent board members. The SSB is considered to be conducive both for performance and safeguarding of shareholders.
4.	(Hashim, Mahadi and Amran, 2015)	Empirical	GCC and Non GCC Countries	The impact of size of SSB was not significant upon sustainability practices while rest of CG variables are positively related to sustainability practices. The country origin moderates the relationship between CG variables and sustainability.

5.	(Grassa, 2016)	Empirical	All IB GCC and Southeast Asia	The research notified better ratings for South East Asian banks as compared to GCC banks. The impact of supervisory role of SSB and concentration of investment account holders is negative on credit ratings. Cross membership of Shariah scholars improve credit ratings of IB.
6.	(Mollah *et al.*, 2017)	Empirical	52 IBs and 104 CBs in 14 Countries	The IBs governance, due to product and transaction complexities, is distinct from CBs allowing for risk seeking attitudes resulting into better financial performance. The CG mechanism positively affects the financial performance measured in terms of return on assets (ROA).
7.	(Farag, Mallin and Ow-Yong, 2018))	Empirical	90 IBs across 13 countries	The size of the SSB is positively related to financial performance of the IBs. The size and age of IB can be determining factor of the size of BoD and SSB. The greater number of independent directors is found to be positively related to SSB size. The size of SSB board is also influenced by power of BoD. IBs are considered to have peculiar agency costs due to the nature of IAHs.
8.	**(**Lassoued, 2018)	Empirical	Malaysia	Size of BoD does not impact the stability of IBs whereas, number of independent directors on the board positively impacts the financial stability among IBs. Decentralized governance mechanism to ensure stability in IBs.
9.	(Ben Zeineb and Mensi, 2018)	Empirical	GCC Countries	The governance variables like BoD size, CEO duality and institutional ownership negatively impact the efficiency while higher management ownership is positively related to banking efficiency. A higher BoD size improves Z-score and negatively impact risk taking by banks. State-owned banks are more prone to risk and more efficient. Bank size is positively related to efficiency and less risk taking.
10.	(Sharmeen, Hasan and Miah, 2019)	Empirical	Bangladesh	The BoD size negatively impacts the green compliance. Independent directors and Auditors' type also have no effect upon green compliance by the banks. The study has notified that green compliance is significantly positively related only to reputation of banks
11.	(Nawaz, 2019)	Empirical	47 IBs in different regions	Investment in human capital has helped IBs to sustain their performance despite worldwide financial crisis. IB windows need to invest more in human capital. Strong CG positively impacts the market performance of IB windows. The board size and CEO duality positively affect the market performance of IBs while size of SSB is negatively related to market performance of IBs.

4.3: Shariah Governance:

Shariah compliance and governance is a unique and mandatory element of CG mechanism in IBs. The Shariah compliance responsibility is carried out by Shariah Supervisory Board (SSB). SSB is an independent board having members specialized in Islamic jurisprudence and experts in Islamic finance. SSB is an internal governance mechanism in IBs to ensure Shariah compliance, reduce agency costs (Safieddine, 2009) and legitimise IB operations. Initially, SSB proved to be a drag for IBs owing to the lack of knowledge of the fields other than Shariah and language barriers between SSB members and directors of IBs (Ghayad, 2008).

4.3.1: Shariah Governance Models: A few studies have looked into the Shariah governance models in use in different regions. (Hamza, 2013) studied different Shariah supervision models including decentralized model applied in GCC and centralized model applied in Malaysia, Pakistan and Sudan. The study asserted the importance of independence, consistency of decisions and matter of confidentiality as SSB members serve various IBs for effectiveness of SSB. The centralized model of governance can help achieving independence of SSB and consistency among Shariah rulings.

(Abd Razak, 2018) has further dwelled into the issue of whether centralized or decentralized model of Shariah board is more appropriate. The study has outlined the pros and cons of both governance models. The decentralized model of Shariah governance is assumed to provide more flexibility but can result into instability of IB industry. It can result into Shariah noncompliance risk and interlocking of Shariah scholars on multiple boards. A centralized Shariah governance model can bring more harmony and consistency in adoption of CG standards.

Both models of Shariah governance have their own strengths and weaknesses hence the model of Shariah supervision has to be tailored according to legal and socio-political situations.

***4.3.2: Shariah compliance*:** Shariah compliance is carried out by Shariah Supervisory Board (SSB). IFSB (2009) requires an appropriate Shariah compliance mechanism through SSB (Hamza, 2013). Shariah compliance can be translated into better financial performance, customer satisfaction, welfare banking, efficient management and better employee satisfaction. On the other hand, Shariah non-compliance risk can lead to various other operational risks and distort stakeholders' confidence in IBs leading to financial instability (Ginena, 2014).

In an empirical study of Shariah compliance by IBs in Bangladesh (Ullah, 2014) remarked that IBs vary greatly in terms of compliance activities and there is lack of fully equipped SSB. The officers of IBs are not very well equipped with Shariah knowledge and training. The Shariah audit system is not adequate enough for Shariah compliance. According to (Ullah and Khanam, 2016) vigilant Shariah compliance can lead to superior financial performance. A competent, effective and independent SSB can help IBs to realize their social and ethical objectives in addition to financial objectives. (Belal et al., 2015) conducted a case analysis of Islamic Bank Bangladesh Limited (IBBL) and found general increase in disclosures practices at bank but the ability and effectiveness of SSB seems to be limited. The reluctance to disclose on certain categories like cross membership of SSB, doubtful income, dealing with insolvent customers, zakat, impermissible income and a low disclosure score which is below 50% cast serious doubts on Shariah compliance mechanism at IBBL. Likewise, (Majeed & Zainab, 2018) exploring

Shariah practices of IBs in Pakistan considered the practices of SSB to be flawed. Though legal requirements are being fulfilled but sharing of risk and social contribution of the banks are considered weak.

The findings of the studies investigating Shariah compliance by IBs don't depict a favourable picture. It seems that a lot more concerted effort by the IB industry is required to ensure Shariah compliance without failure. The success of IFIs is completely based upon gaining customers' confidence related to Shariah compliance. Hence, this reputational risk factor has to be foresighted to ensure the success of IBs. Though, the knowledge and practice of CG have increased with time across regions but still cannot be considered comprehensive and all encompassing.

4.3.3:Shariah supervision and performance benchmarks**:** Islamic banks corporate structure have distinguishing features like SSB and initially a limited number of studies looked into the relationship between SSB and bank performance (Alnasser & Muhammed, 2012). Of late, many studies have focused upon SSB role and their impact on the financial performance of IBs. Though results are varied but still have ensured the importance and vitality of SSB for IBs.

4.3.3.1: Shariah board structure and performance: For boardroom characteristics studies have mostly looked into the size of SSB and its impact upon various performance measures like financial performance, efficiency and market performance etc.

(Hakimi *et. al,* 2015) employed panel data analysis and reported that SSB size enhance IBs' performance. According to the study by (Mansour et al., 2016) the size of board impacts the performance of IBs positively while the change in composition of board impacts performance negatively because turnover of SSB members raises many question about the compliance of IBs to Shariah. Likewise, in a study (Farag et al., 2018) have found that size of the SSB is positively related to financial performance of the IBs. In a comparative study of efficiency of IBs and conventional banks (Safiullah & Shamsuddin, 2019) have reported that a well reputed highly qualified SSB is conducive for both cost and profits of IBs.

A study by (Zaki et al., 2014) dwelled into the SSB structure exploring their profiles, remuneration, number of meeting held, reports of products approved and congruence of profit with Shariah. The study has indicated a negative relationship between SSB and financial performance. (Hashim et al., 2015) reported non-significant impact of size of SSB upon sustainability practices of IBs. The findings of a study by (Nawaz, 2019) related to CG mechanism reveal that size of SSB is negatively related to market performance of IBs.
(Elamer et al., 2019) has reported poor structure of SSB in MENA. The study has further emphasized the role of SSB in IBs showing SSB quality enhances risk disclosure in IBs.

A few studies have found the positive relationship between SSB and performance. On the other hand, there are empirical findings of negative relationship between the two. The best possible explanation of such results is that paucity of research in the field of CG in IBs has led to such inconclusive position.

4.3.3.2: Shariah board competence and performance: The role of SSB is of pivotal importance for good governance and performance of IBs. The competence and independence of SSB coupled with internal review units and external auditors can help safeguarding stakeholders' rights in IBs.

(Ghayad, 2008) has highlighted that knowledge of Shariah advisors in the field of finance can help in Shariah compliant product development and improve their supervision and consultation role. (Quttainah & Almutairi, 2017) found out that higher educational level of SSB cofounds with higher ethical standards. In addition, structure and competency of SSB members play a pivotal role towards ethical behaviour of mangers. (Haridan et al., 2018) have explored issues including competence, effectiveness and independence of Shariah board in two full-fledged Malaysian IBs. The study highlights that role of Shariah board seems to be ceremonial and pinpoints serious deficiencies in banking and financial knowledge of board members. In a study of CG of IBs and IB windows in Pakistan (Bukhari et al., 2013) studied CG dimensions and reported that enhancing SSB for IB windows would strengthen their other dimensions of CG. (Amalina Wan Abdullah et al., 2013) studied SSB and zakat (Islamic levy) disclosures in annual reports of Malaysian and Indonesian Islamic bank reported positive relationship between expertise and cross membership of SSB and Shariah disclosure. Another study by (Grassa, 2016) investigated the impact of SSB on credit ratings. Though, cross membership of Shariah scholars improve credit ratings of IBs. the impact of supervisory role of SSB is negative on credit ratings. In a comparative study between IBs and CBs by (Mollah & Zaman, 2015) notified that SSB is conducive for performance and safeguard of shareholders. The impact of SSB can be more pronounced if monitoring and independence of Shariah board is further enhanced.

(Mansour et al., 2016) has found out that SSB expertise impacts the performance of IBs positively while the effect of qualification is found to be negative. The negative impact of academic qualification upon performance could be due to the reason that most members hold degree in Shariah but very few have accounting and finance degrees. In a study measuring the quality of SSB and its moderating effect on the relationship between accounting disclosure and financial performance (Ajili & Bouri, 2018) found a negative moderating impact of SSB quality.

Generally, the impact of qualification and expertise of SSB is positive on performance measures which is fairly straightforward. A better well equipped SSB is deemed to perform their function thoroughly and vigilantly.

Table 4: Shariah Governance and Shariah Supervisory Board

Sr.No	Reference	Type of Paper	Country	Overview
1.	(Ghayad, 2008)	Case Study	Bahrain	It is concluded that knowledge of Shariah advisors in the field of finance can help in Shariah compliant product development and can improve their supervision and consultation role.
2.	(Hasan , 2011)	Empirical	GCC, Malaysia and UK	The study has affirmed notable variations shortcomings in Shariah governance across the regions.
3.	(Hamza, 2013)		MENA and Southeast Asia	The study emphasizes that reputation and credibility of SSB is the differentiating factor for IBs. Hence, the centralized model of governance can help achieving independence of SSB and consistency among Shariah rulings.
4.	(Ullah, 2014)	Empirical	Bangladesh	IBs vary greatly in terms of compliance activities and there is lack of fully equipped SSB. The officers of IBs are not very well equipped with Shariah knowledge and training at institutional level is very little.
5.	(Belal, Abdelsalam and Nizamee, 2015)	Case Study	Bangladesh	The study notifies general increase in disclosures practices at the bank (IBBL). The reluctance to disclose on certain categories like cross membership of SSB, doubtful income, dealing with insolvent customers, zakat, impermissible income and a low disclosure score cast serious doubts on CG mechanism employed in IBBL.
6.	(Majeed and Zainab, 2018)	Empirical	Pakistan	The practices of SSB seem to be flawed. Though legal requirements are being fulfilled but sharing of risk and social contribution of the banks is weak.
7.	(Quttainah and Almutairi, 2017)	Empirical	15 countries	The study finds managers at IB to be ethically more responsible and higher educational level of SSB cofounds with higher ethical standards irrespective of nationalities of board members.
8.	(Ullah and Khanam, 2016)	Case Study	Banaglades h	Shariah compliance is deemed to be main reason for bank's financial performance and has translated into customer satisfaction, welfare banking, efficient management and better employee satisfaction. All these factors translated into better financial performance.
9.	(Mansour, Thamar and Banking, 2016)	Empirical	Malaysia	The proactive model of regulation is prevalent in Malaysia. Board size, expertise and cross membership impacts the performance of IBs positively while the effect of qualification, change within the board composition and academic qualification upon performance is found to be negative.

11.	(Ajili and Bouri, 2018)	Empirical	GCC Countries	SSB effectiveness is given more importance as compared to conventional CG mechanisms. This implies compliance to Shariah is given due importance in GCC IBs. The study has shown no significant relationship between CG quality and financial performance of IBs in GCC
12.	(Safiullah & Shamsuddin, 2019)	Empirical	188 IBs and CBs from 28 countries	A well reputed highly qualified SSB is conducive for both cost and profits of IBs. BoD in IBs impacts profit efficiency positively in IBs.
13.	(Haridan, Hassan and Karbhari, 2018)	Qualitativ e Empirical	Malaysia	The role of Shariah board seems to be ceremonial and pinpoints serious deficiencies in banking and financial knowledge of board members. The study advocated for the advisory role of Shariah board within the bank.
14.	(Almutairi and Quttainah .2019)	Empirical	15 IBs and Non IBs in 15 Countries	IBs try to maintain the legitimacy of Shariah through fair dealing with their customers. Hence, by rigorous governance mechanism accounting manipulation is controlled and financial data disclosure quality is improved. Shariah ruling has influenced IBs to maintain ethical standards in financial reporting.

5. Conclusion:

The field of CG in Islamic banking has gained attention of researchers in the last two decades. It is an emerging area of research and there are still many unturned research avenues. The research on CG in IBs has mainly been empirical conducted in GCC and South Eastern region with few conceptual studies. (Figure 2&3) The divergence of Islamic concept of CG has been reiterated in the literature but a sound theoretical base for Islamic CG studies is still missing. A few models of Islamic CG (Choudhury & Hoque, 2006); (Alnasser & Muhammed, 2012) have been presented to justify stakeholder centric framework for CG in IBs. based upon divine guidance. However, a lot number of studies employ agency theory for their theoretical framework and analysis. This calls for the requirement of a theory building research approach in Islamic CG.

Shariah Supervision is considered integral to CG mechanism in IBs. However, results suggesting role of Shariah Supervision by SSB are elusive. The debate in literature about centralized or decentralized model of Shariah supervision (Hamza, 2013); (Abd Razak, 2018), supervisory or advisory role of SSB (Mollah & Zaman, 2015); (Safiullah & Shamsuddin, 2019), interlocking of SSB and impact of size of SSB upon performance is inconclusive. Many studies doubt role of SSB (Ullah, 2014); (Majeed & Zainab, 2018) in certain jurisdictions. Hence future studies can probe into aforementioned issues and elucidate on the matters which can enhance the effectiveness of SSB. Furthermore, an effective SSB and Shariah compliance can earn IBs a sustainable strategic advantage due to their religious, social and ethical foundations. This matter needs to be further probed in.

Additionally, the studies on antecedents of effective CG mechanism in IBs are few in literature. On the contrary, impact of CG on financial performance has mainly been under observation by researchers (Nawaz, 2019); (Mollah & Zaman, 2015). Few studies have focused upon CG and disclosure (Elamer et al., 2019); (Neifar & Jarboui, 2018) and a relatively small number of studies looked into CG relationship with risk management and efficiency of IBs (Ben Zeineb & Mensi, 2018).

It has been recognized in literature that CG mechanism is impacted by legal, social and economic environments. However, the impact of emerging economies and country legal systems as antecedents of CG have not been covered thoroughly in the literature. The forthcoming studies can focus upon antecedents of good corporate governance in IBs. keeping in view the economic, social and legal situation of the countries where they operate in.

CG in IBs has started to gain attentions of researchers especially in countries where IBs are gaining business. In the field of research this topic needs to be covered more rigorously and exhaustively.

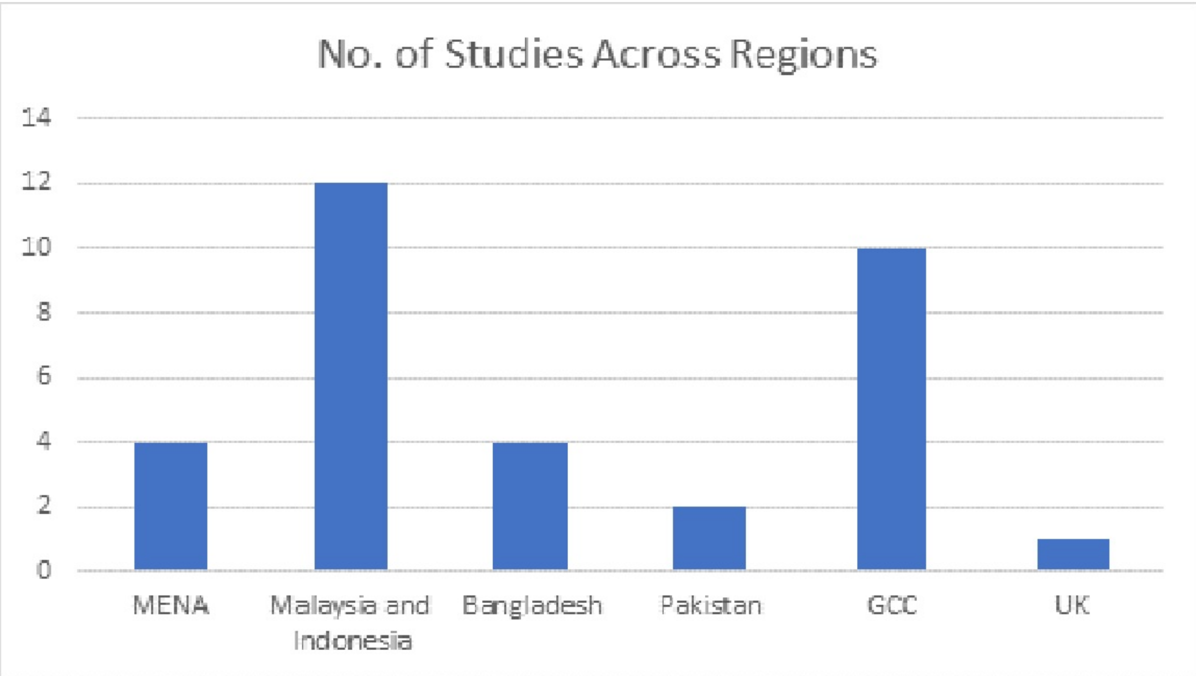

Figure 2: Number of Islamic banking CG studies (covered in review) conducted in different countries and regions

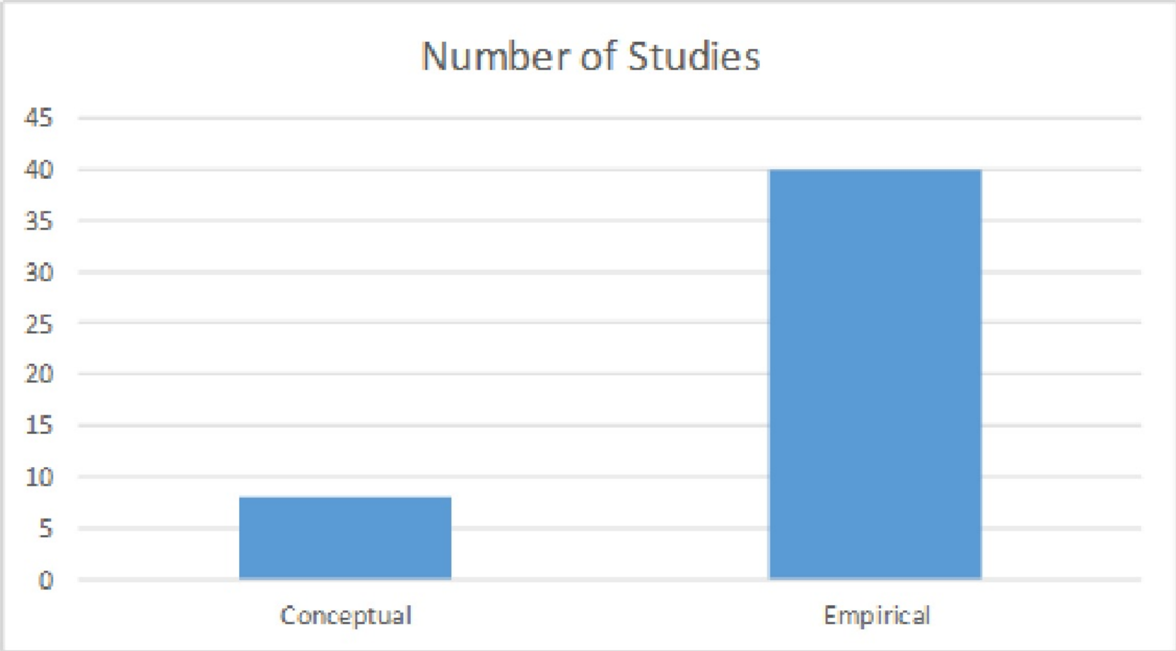

Figure 3: Type of CG studies in Islamic banking literature

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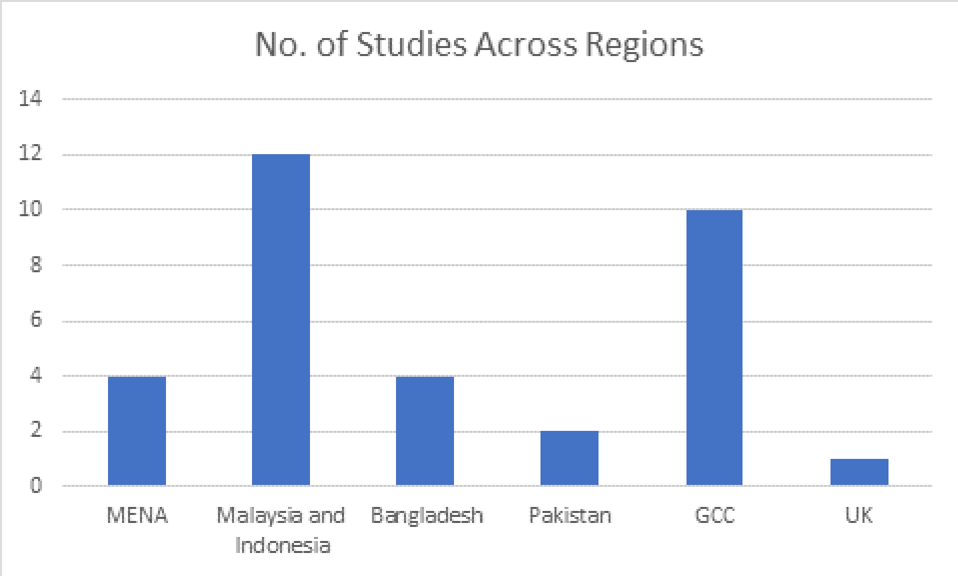

Figure 1: Number of Islamic banking CG studies conducted in different countries and regions

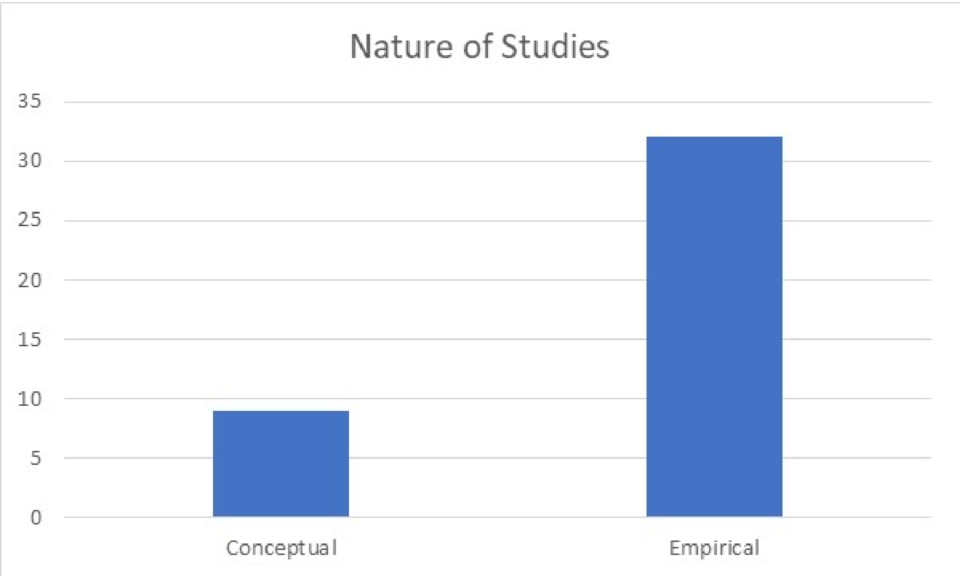

Figure 2: Type of CG studies in Islamic banking literature