

Conference Paper

Examining the Relationships Between Islamic Governance, Financial Performance, and Corporate Value: A Literature Review

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ABSTRACT

The objective of this literature review is to offer a thorough examination of the relationship between Islamic company Social Responsibility (ICSR), Islamic Corporate Governance (ICG), financial performance, and company value in the realm of Islamic finance and business practices. The main aim of this study is to conduct a comprehensive literature analysis to obtain a deeper understanding of the interconnected elements that play a role in the overall achievement and long-term viability of Islamic enterprises. The research technique utilized for this review entails a comprehensive analysis of pertinent scholarly literature, with a specific emphasis on the concepts and implementation of ICSR (Islamic Corporate Social Responsibility) and ICG (Islamic Corporate Governance) within the context of Islamic ethics and adherence to Sharia. The evaluation emphasizes the importance of ensuring that company actions are by Islamic principles, such as engaging in philanthropy, practicing ethical business conduct, and demonstrating environmental responsibility. Additionally, the literature review presents empirical findings that suggest organizations that are dedicated to the principles of corporate social responsibility (CSR) and corporate governance (CG) tend to demonstrate greater financial performance and increased corporate value. This study examines the potential impact of these principles on the long-term financial performance and stability of Islamic markets, with a specific focus on enhancing shareholder wealth. The paper additionally examines several approaches and indicators employed for evaluating ICSR (Islamic Corporate Social Responsibility), ICG (Islamic Corporate Governance), financial performance, and corporate value within Islamic settings. It acknowledges the distinct difficulties encountered by scholars and practitioners when attempting to effectively assess these categories. The literature review has two implications. First and foremost, this highlights the significance of incorporating practises related to Islamic Corporate Social Responsibility (ICSR) and Islamic Corporate Governance (ICG) within the framework of Islamic firms, with a focus on their ability to enhance financial performance and corporate value. Additionally, this underscores the necessity for additional study in order to establish standardized measuring frameworks and methodologies specifically designed for Islamic banking and commercial contexts. This literature study offers significant insights into the intricate interconnections between ICSR (Islamic Corporate Social Responsibility), ICG (Islamic Corporate Governance), financial performance, and corporate value within the context of Islamic business practises. This statement highlights the need of ensuring that Islamic principles are in accordance with business actions and governance structures, in order to promote the well-being of stakeholders and ensure the long-term viability of Islamic firms. Future study should prioritise the resolution of measurement issues and the examination of the intricacies inherent in these associations among distinct Islamic sectors and geographical areas.

Keywords: Islamic corporate social responsibility, islamic corporate governance, financial performance, corporate value

Introduction

Islamic Corporate Social Responsibility (ICSR) is the same as Corporate Social Responsibility (CSR), but ICSR is more concerned with companies that apply Sharia in their business. ICSR namely the

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commitment of companies or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and emphasizing a balance between attention to economic, social, and environmental aspects (Untung, 2008). The notion of ICSR entails the integration of conventional CSR principles with Islamic ethics and values. In Islamic contexts, it is encouraged for companies to actively participate in socially responsible endeavors that are in accordance with Islamic principles. These activities encompass a range of endeavors such as philanthropic endeavors, adherence to ethical corporate practices, equitable employment practices, responsible environmental management, and other initiatives that uphold the welfare of society in alignment with Islamic ideals. Scholarly literature frequently investigates the manner in which Islamic enterprises adopt and execute ICSR practices and the subsequent effects on their reputation and interactions with stakeholders.

Islamic Corporate Governance refers to a comprehensive structure that facilitates the management and regulation of corporations in accordance with Islamic principles, with a special emphasis on adhering to Shariah law. The primary emphasis of this study revolves around the examination of matters about openness, accountability, and justice within the realm of corporate operations. Scholarly literature in this field may explore the manner in which Islamic enterprises organize their governance structures, the significance of Shariah boards, and the impact of Islamic corporate governance on both business performance and ethical behavior. One of the key aspects of a successful Sharia-based business is effective governance, which reflects Islamic values such as justice, transparency, and respect for Sharia law. The principles of Islamic corporate governance are good corporate governance including honesty, trust, openness, performance orientation, accountability to Allah and humans, mutual respect, and commitment to the company and all of this is in line with Islamic sharia (Anggraini & Mariana, 2023).

The scholarly investigation in this field frequently aims to comprehend the influence of devotion to Islamic beliefs on financial performance and business worth. Research endeavours can encompass an investigation into the financial ratios, stock market performance, and accounting practices exhibited by Islamic enterprises in comparison to their non-Islamic counterparts. Scholars frequently investigate the potential impact of adhering to Islamic finance rules, which encompass the avoidance of interest (riba) and speculation (gharar), on financial outcomes, aiming to determine if such adherence results in higher or inferior performance. In addition to robust Islamic governance, the financial performance of the organization is a crucial determinant. Financial performance refers to the systematic undertaking undertaken by a corporation to assess its effectiveness in generating profits, so enabling an evaluation of the company's growth trajectory and potential for positive advancement based on its available resources (Mahputera, 2021). The evaluation of business performance also encompasses the consideration of company value as a significant component. The concept of company value can be understood as a metric that signifies the firm's performance, typically represented by its share prices. This value serves as a benchmark for investors, indicating the amount they are willing to pay in the event of a company sale (Laili et al., 2019). In the context of Sharia business, company values not only include economic aspects, but also moral and ethical values which are closely related to Islamic principles.

This article will review the complex relationship between Islamic governance, financial performance, and company value in the Sharia sector. Through in-depth analysis, we will try to answer key questions about how Islamic governance can impact financial performance and corporate value. Therefore, this article invites readers to explore the importance of Islamic governance in integrating ethical values and business success and understand how this can shape a promising future for Islamic business and finance.

Material and Methods

The present study used a qualitative methodology, specifically a literature review, to examine the research topic. The utilisation of literature in qualitative research serves the purpose of situating the

outcomes of prior research within the framework of newly found findings. However, it is important to note that this does not include conducting exhaustive validation of the results obtained from earlier research (Afiyanti, 2014). Using the Google Scholars search engine, the keywords used are "Islamic Corporate Social Responsibility", "Islamic Corporate Governance", "Financial Performance", and "Corporate Value". Based on these keywords, this research collected five articles for review.

Results and Discussion

Table 1. Literature review

No	Article and Titles	Research Methods	Object of Research	Research Result
1	Analysis of Sharia Capital Markets in 5 ASEAN Countries in the Era of the COVID-19 Pandemic (Romadhon et al., 2022).	Quantitative Approach with 2020 daily data as the database	Sharia capital markets exist in 5 countries in ASEAN, namely: Indonesia, Malaysia, Singapore, the Philippines, and Thailand	The results of this research show that during the Covid-19 pandemic, there was a significant positive influence from the Singapore Sharia Stock Index, the Philippines Sharia Stock Index, and the Thai Sharia Stock Index on the performance of the Indonesian Sharia Stock Index (ISSI). In contrast, the Malaysian sharia stock index showed a significant negative influence on ISSI during this period.
2	The Effect of Islamic Corporate Governance (ICG) and Islamic Corporate Social Responsibility (ICSR) Disclosures on Market Discipline with Financial Performance Used as Intervening Variables (Empirical Study on Shariah based Banks Operating in QISMUT Countries) (Yadiat et al., 2017).	Quantitative Approach to Analyze 42 Sharia Banks	42 Islamic Banks located in Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates and Turkey (QISMUT)	The results of this research reveal that customers who save money in Sharia-based banks respond positively to the implementation of Islamic Corporate Social Responsibility (ICSR) by the bank. Most customers agree with the implementation of ICSR in Sharia-based banks, and they are willing to take steps if the bank does not comply with ICSR. This action includes withdrawing their funds from the bank and switching to another Sharia-based bank that is considered to have better social responsibility.
3	Islamic Social Reporting Disclosure to Companies Registered in the List of Sharia Securities (DES) (Sunarsih & Dahlifah, 2019)	Quantitative Research by analyzing a sample of 20 sharia companies for 6 years	Sharia banks in Indonesia	The results of this research indicate that every bank that adopts Sharia principles must strive to build a positive image and attract and retain customers. This effort can be made by implementing and practicing the principles of Islamic Corporate Governance (ICG) and Islamic Corporate Social Responsibility (ICSR) with openness to stakeholders. Through

To be continued...

No	Article and Titles	Research Methods	Object of Research	Research Result
				increasing transparency and promoting market discipline, sharia-based banks can achieve this.
4	Determinants and outcomes of Islamic corporate social responsibility (ICSR) adoption in Islamic banking industry of Pakistan (Bukhari et al., 2020).	Quantitative Research by distributing 400 questionnaires	Islamic banking industry in Pakistan	This research aims to address the gap in knowledge about Islamic Corporate Social Responsibility (ICSR) and can provide benefits to Islamic banks operating in developing countries such as Pakistan. In Islamic banks, CSR activities require a higher level of moral and religious orientation than conventional banks. CSR activities must become an integral part of the bank's organizational structure (Aracil, 2019).
5	Research on Islamic corporate social responsibility and Islamic bank disclosures (Gunardi et al., 2021)	Research literature review	Analyzing 230 Scopus articles related to ICSR disclosure in banking from articles published in 2006 - 2019	The results of this research can be concluded that several factors that influence Islamic banks in monitoring their financial activities and reporting also influence the disclosure of Islamic Corporate Social Responsibility (CSR) based on Islamic governance principles. First, there is an influence on Islamic CSR disclosure, such as the CEO's tenure and duality of CEO positions in the board of directors structure. These factors include the size of the board of directors, the level of independence of the board of directors, the presence of female directors, and the existence of a CSR committee. Furthermore, the second factor that influences Islamic CSR disclosure is the ownership structure, which involves institutional ownership and foreign ownership. Meanwhile, the third factor is the CEO's power.

The presence of a Sharia Supervisory Board is considered to be one of the mechanisms employed in Sharia corporate governance. The primary responsibility of the Sharia Supervisory Board is to oversee the operations of the company, ensuring its adherence to the principles of Sharia. Previous research has indicated that there exists a positive correlation between the level of oversight conducted by the Sharia Supervisory Board and the financial performance of the organization (Garas & Pierce, 2010). Research conducted by (Sidik & Reskino, 2016) Research has demonstrated that the implementation of Integrated Corporate Social Responsibility (ICSR) initiatives has a favourable

influence on the financial performance of companies. There exists a positive correlation between the extent of social information disclosure and the financial performance of a corporation. Furthermore, there exists a positive correlation between the level of efficacy of internal control governance (ICG) and the appraisal of firm value. This finding aligns with the outcomes of prior investigations carried out (Rohmah et al., 2019).

Empirical evidence from research conducted by Kurniasari et al. (2017) Research has demonstrated that the implementation of corporate social responsibility practices yields a favourable influence on the evaluation of a company's worth. The valuation of a corporation is intricately linked to the financial assets possessed by its proprietors or stockholders and is directly proportional to the prevailing market value of the company's shares. Investors can achieve more gains when the share price increases. The evaluation of a company's worth can be gauged by its capacity to effectively administer its assets to generate profits. This aligns with a prior study conducted to examine the potential positive influence of financial performance on firm value, as evidenced (Sutapa, & Laksito, 2018).

The subject of research examining the complex interplay between ICSR, ICG, financial performance, and business value in Islamic contexts is currently seeing significant growth. Studies examining the influence of ICSR on financial performance frequently evaluate the potential effects of ethical and socially responsible practices on profitability, cost management, and revenue growth. Similarly, research examining the impact of ICSR on corporate value investigates many metrics, including market capitalization, shareholder value, and long-term sustainability. In the realm of scholarly inquiry, investigations pertaining to the impact of ICG on financial performance dig into the relationship between robust governance frameworks, which encompass Shariah-compliant governance, and enhanced financial outcomes.

Based on our research scholars also analyze the ramifications of ICG on corporate value, exploring the function of Shariah boards in guaranteeing adherence to Islamic principles and evaluating its influence on the generation of long-term value. The present study employs an integrated approach that takes into account both the elements of ICSR and ICG in order to comprehensively examine their combined impact on financial performance and corporate value. Additionally, contextual considerations, including regional disparities, industry-specific intricacies, and cultural and legislative variations, are considered influential factors that affect the conclusions of this analysis. Longitudinal studies that monitor the performance of Islamic enterprises over an extended period of time offer useful insights into the long-term sustainability of ICSR and ICG practices.

Conclusion

The relationship between Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), financial performance, and company value is the focus of this literature review in the context of Islamic finance and business practices. This research emphasizes the importance of aligning corporate actions with Islamic values, including philanthropy, ethical business behavior, and environmental responsibility in the context of Islamic business. There is empirical evidence showing that companies that are committed to ICSR and ICG principles tend to experience increased financial performance and company value.

The implications of this literature review are the importance of integrating ICSR and ICG practices into Islamic business structures, as well as the need to develop standard measurement frameworks and methodologies that are appropriate to the Islamic finance and business environment. Future research should focus on overcoming measurement challenges and exploring differences in these relationships across specific Islamic industries and regions. This research also highlights the importance of understanding the linkages between ICSR, ICG, financial performance, and corporate value in the context of Islamic finance and business practices, as well as the importance of applying Islamic

principles in corporate actions for the sustainability of Islamic companies and the benefit of stakeholders.

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