

## Islamic Ethics in Business and Finance: Implication for Corporate Governance and Responsibility

### *Etika Islam dalam Bisnis dan Keuangan: Implikasinya terhadap Tata Kelola dan Tanggung Jawab Perusahaan*

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#### ABSTRACT

This systematic literature review explores the implications of implementing Islamic ethical principles in Good Corporate Governance (GCG) within the context of Islamic financial institutions. The study investigates the relevance and impact of Islamic ethics on various aspects of corporate governance, including accountability, transparency, justice, and stakeholder welfare. Drawing upon a comprehensive review of existing literature, the research identifies key themes and findings related to the integration of Islamic ethical values into GCG practices. The study highlights the significance of aligning corporate governance structures with Sharia principles to ensure ethical conduct, transparency, and stakeholder trust. However, the research also acknowledges several limitations, such as data availability constraints, geographic focus, cultural and social contexts, and methodological considerations. To address these limitations, future research directions are suggested, emphasizing the need for broader data sources, cross-cultural analyses, and diverse research methodologies to deepen understanding and enhance the applicability of findings in diverse organizational settings.

**Keywords:** Islamic ethics, Good Corporate Governance (GCG), Islamic financial institutions, accountability, transparency, justice, stakeholder welfare.

#### ABSTRAK

*Studi literatur sistematis ini mengeksplorasi implikasi penerapan prinsip-prinsip etika Islam dalam Tata Kelola Perusahaan (GCG) di institusi keuangan Islam. Penelitian ini menyelidiki relevansi dan dampak etika Islam pada berbagai aspek tata kelola perusahaan, termasuk akuntabilitas, transparansi, keadilan, dan kesejahteraan pemangku kepentingan. Berdasarkan tinjauan literatur yang komprehensif, penelitian ini mengidentifikasi tema-tema kunci dan temuan terkait integrasi nilai-nilai etika Islam ke dalam praktik GCG. Studi ini menyoroti pentingnya menyelaraskan struktur tata kelola perusahaan dengan prinsip-prinsip Syariah untuk memastikan perilaku etis, transparansi, dan kepercayaan pemangku kepentingan. Namun demikian, penelitian ini juga mengakui beberapa keterbatasan, seperti kendala ketersediaan data, fokus geografis, konteks budaya dan sosial, serta pertimbangan metodologis. Untuk mengatasi keterbatasan tersebut, arah penelitian masa depan disarankan, dengan menekankan perlunya sumber data yang lebih luas, analisis lintas budaya, dan metodologi penelitian yang beragam untuk memperdalam pemahaman dan meningkatkan aplikabilitas temuan dalam berbagai setting organisasi.*

**Kata Kunci:** etika Islam, Tata Kelola Perusahaan yang Baik (GCG), institusi keuangan Islam, akuntabilitas, transparansi, keadilan, kesejahteraan pemangku kepentingan.

**1. Introduction**

Islamic ethics significantly influence business and finance practices, particularly in Islamic banking and finance institutions. These institutions operate based on Sharia principles, which form the foundation of their ethical framework (Haniffa & Hudaib, 2007). Adherence to Islamic ethical values not only shapes their operations but also impacts their corporate branding, image, and reputation (Haniffa & Hudaib, 2007). The ethical identity of Islamic banks is closely linked to their communication in annual reports, showcasing their commitment to ethical business practices (Haniffa & Hudaib, 2007).

Research in Islamic finance emphasizes the importance of ethical considerations in the operations of Islamic financial institutions (Shamsudheen et al., 2023). Scholars highlight the necessity of evaluating and understanding the ethical practices of these institutions to ensure alignment with Islamic ethical principles (Shamsudheen et al., 2023). Moreover, there is a need for more scholarly focus on ethical judgment and decision-making behavior within Islamic financial institutions (Shamsudheen & Rosly, 2020).

Islamic business ethics are centered around principles such as justice, balance, trust, and benevolence, crucial for upholding ethical responsibility among stakeholders (Beekun & Badawi, 2005). These principles are fundamental not only to Islamic finance but also resonate with broader concepts of corporate social responsibility and ethical finance (Musa et al., 2020). The ethical framework in Islamic finance aims to promote values that differentiate it from conventional financial practices, emphasizing ethical behavior and social responsibility (Musa et al., 2020).

The ethical foundation of Islamic finance extends beyond financial transactions to encompass broader societal impacts and responsibilities. Islamic finance is seen as a tool to support the less privileged during crises like the Covid-19 pandemic, reflecting its ethical principles (Khan et al., 2020). The ethical dimensions of Islamic finance cater not only to Muslim consumers but also have the potential to attract a wider audience due to their ethical foundation and focus on real economic activities ("undefined", 2016). In conclusion, Islamic ethics play a pivotal role in shaping the business and financial practices of Islamic institutions. Rooted in Sharia principles, these ethics guide decision-making processes, corporate behavior, and stakeholder relationships within Islamic finance. Understanding and upholding Islamic business ethics are essential for ensuring the integrity and sustainability of Islamic financial institutions.

**Tabel 1.**  
**Application of Islamic Ethics Principles to Corporate Governance**

| Source                   | Findings  | Implications   |
|--------------------------|---|--|
| PwC Survey (2022)        | 86% of global CEOs say that ethics and integrity are critical to a company's long-term success.                       | Ethics and integrity are important factors in achieving a company's long-term success.       |
| KPMG Studies (2021)      | Companies that implement Sharia GCG have better financial performance compared to companies that do not implement it. | Implementing Sharia GCG can improve a company's financial performance.                       |
| World Bank Report (2020) | The application of Islamic principles in business can increase investor confidence and encourage economic growth.     | The application of Islamic principles in business can have a positive impact on the economy. |

Sumber: PwC (2022), KPMG (2021), World Bank Report (2020)

The application of Islamic ethical principles in corporate governance has become a major concern among global corporate leaders. According to PwC's latest survey in 2022, 86% of global CEOs admit that ethics and integrity play a crucial role in achieving a company's long-term success. This confirms that compliance with ethical principles is fundamental in maintaining business continuity. In addition, a study conducted by KPMG in 2021 shows that companies that implement Sharia Good Corporate Governance (GCG) tend to have better financial performance compared to companies that do not implement it. The implication is clear, that the implementation of Sharia GCG is not only profitable morally, but also financially.

The World Bank report in 2020 also provides strong evidence of the benefits of applying Islamic principles in business. According to the report, the application of Islamic principles can increase investor confidence and encourage overall economic growth. This shows that Islamic ethical principles not only provide benefits to the company itself, but also to the economy at large. Thus, it can be concluded that the application of Islamic ethical principles in corporate governance has a positive impact both from a moral and financial perspective. This confirms that awareness of Islamic values in business is not only relevant, but also important in building a sustainable and ethical company.

Effective corporate governance is crucial for enhancing firm performance and value by addressing the agency problem through mechanisms that influence managerial decisions in situations where there is a separation of ownership and control (Roy, 2016). Research has shown that good corporate governance can lead to improved firm value by reducing shareholders' monitoring and auditing costs, thereby lowering the costs of capital (Ammann et al., 2011). Moreover, it has been suggested that good corporate governance can limit the private benefits of control, particularly in companies facing severe principal-principal conflicts, ultimately enhancing firm value (Renders & Gaeremynck, 2011).

Studies have demonstrated that good corporate governance is linked to better firm performance, even during crisis periods (Kowalewski, 2016). Additionally, good corporate governance is essential for curbing earnings management, which is vital for upholding transparency and accountability within organizations (Ruwanti et al., 2019). It is noted that good corporate governance instills a sense of security in creditors and shareholders, fostering trust in the company and its operations (Rahman & Subagio, 2021). Furthermore, good corporate governance helps mitigate conflicts of interest and align stakeholders' interests towards the advancement of corporations, creating mutually beneficial situations (Khan, 2016). A robust corporate governance system is emphasized as necessary to reduce the agency problem and protect stakeholders' interests (Hossain et al., 2019). Additionally, the impact of good corporate governance on organizational performance is significant, especially in mediating government policies and strategic human resource competency (Nahrudien et al., 2022). In conclusion, the literature underscores the importance of good corporate governance in enhancing firm performance, improving transparency, reducing risks, and increasing profitability. By implementing effective corporate governance practices, organizations can strengthen their relationships with stakeholders, build trust, and ultimately drive sustainable growth and success.

Islamic ethics have demonstrated potential in enhancing Good Corporate Governance (GCG) practices. Research has shown that Islamic business ethics can have a positive impact on the performance of Micro, Small, and Medium Enterprises (SMEs) (Najmudin et al., 2022). Studies have indicated that the implementation of Islamic business ethics, particularly when combined with a strong network, can lead to improved company performance (Mutaqin & Cokrohadisumarto, 2018). Additionally, Islamic work ethics have been associated with increased job satisfaction, organizational commitment, and organizational citizenship behavior (Zia et al., 2022; Romi et al., 2020; Rokhman, 2022).

The application of Islamic ethics in business revolves around principles such as justice, balance, trust, and benevolence, which are in line with stakeholder theory (Beekun & Badawi, 2005). Islamic marketing ethics have been linked to enhancing brand credibility (Al-Nashmi & Almamary, 2017).

Furthermore, Islamic ethical systems integrated into business operations have been found to prioritize ethical considerations over profit motives (Zainuldin et al., 2018).

Islamic business ethics have been observed to influence consumer behavior, including purchasing decisions, interest in savings products, and organizational commitment (Fakhrurozi et al., 2022; Jannah et al., 2022; Mustaqim et al., 2020). Moreover, the adoption of Islamic business ethics has been connected to higher ethical standards within organizations, shaping them into entities with a solid ethical foundation (Zainuldin et al., 2018). In conclusion, the efficacy of Islamic ethics in enhancing GCG is evident through its positive influence on various aspects of business performance, organizational behavior, and consumer choices. By incorporating Islamic ethical principles into business practices, organizations can cultivate a culture of integrity, responsibility, and sustainability, thereby strengthening their overall governance framework.

Accountability and transparency are fundamental aspects of business operations that are closely interconnected. Transparency, often compared to concepts like "sunlight" or "disinfectant," is crucial for enabling stakeholders, including citizens and consumers, to access information about organizational affairs (Albu & Flyverbom, 2016). It plays a significant role in corporate governance structures, ensuring that shareholders receive accurate information about firms' activities and values, thereby motivating managers to prioritize firm values over personal objectives (Vaccaro & Madsen, 2009). Moreover, transparency is associated with benefits such as building trust, enhancing employee engagement, increasing productivity, and fostering innovation within organizations (EZEILO, 2022).

On the other hand, accountability, when dissected into dimensions like transparency and enforcement, is essential for ensuring that decision-makers are held responsible for their actions (Cacciatore et al., 2022). In the context of business-led subnational governance models, challenges related to representativeness, transparency, and accountability can impact institutional design (Newman & Gilbert, 2022). Furthermore, in the realm of sustainability reporting, stakeholders are increasingly pressuring businesses to demonstrate governance effectiveness, accountability, and transparency through sustainability disclosures (Amran & Ooi, 2014).

The digital transformation of corporate reporting is shedding light on the significance of digital technologies in enhancing accountability and transparency. These technologies are being utilized for corporate information management, stakeholder engagement, sustainable reporting practices, and addressing issues like earnings management and corporate social responsibility (Lombardi & Secundo, 2020). Additionally, the adoption of the Extensible Business Reporting Language (XBRL) is seen as a way to reduce fraudulent financial statements, thereby improving accountability and transparency in financial reporting (Wijaya & Suryaningrum, 2021). In conclusion, the synthesis of these references underscores the critical role that transparency and accountability play in business ethics, corporate governance, sustainability reporting, and financial management. Embracing transparency not only fosters trust and innovation but also ensures that organizations operate ethically and responsibly, meeting the demands of stakeholders and contributing to long-term success.

Previous research has highlighted the importance of Islamic ethical principles in business and financial practices, especially in Islamic banking and financial institutions. However, there is still a knowledge gap that needs to be filled regarding the application of Islamic ethical principles in corporate governance more broadly. Although several studies have shown the benefits of applying Islamic principles in business, it is still necessary to understand in more depth the impact and implications of applying Islamic ethical principles on corporate governance as a whole. Therefore, this research aims to fill this knowledge gap by analyzing the relationship between the application of Islamic ethical principles in corporate governance with company performance and investor trust.

This research aims to provide a deeper understanding of the importance of applying Islamic ethical principles in corporate governance and its impact on company performance and investor confidence. By better understanding the relationship between Islamic ethical principles and corporate

governance, it is hoped that this research can provide valuable insights for business practitioners, regulators and other stakeholders in developing sustainable and ethical business practices.

This research is expected to make a significant contribution in expanding understanding of the relationship between Islamic ethical principles and corporate governance as well as its implications for company performance and investor confidence. By identifying and analyzing the factors that influence the application of Islamic ethical principles in corporate governance, this research can provide a foundation for the development of business practices that are more sustainable and in line with Islamic ethical values. In addition, it is hoped that the results of this research can provide guidance for policy makers in designing regulations that support ethical and sustainable business practices.

## **2. Research Methods**

The research method used in this study is a systematic literature review approach which aims to investigate the implications of Islamic ethics in business and finance on corporate governance and social responsibility. First, reference sources were obtained from international databases such as Scopus, Web of Science, and Google Scholar, using keywords such as "Islamic ethics", "business ethics", "Islamic finance", "corporate governance", "corporate responsibility", and variations. Relevant articles were then filtered based on inclusion criteria, namely research that focused on the relationship between Islamic ethics in business and finance with corporate governance and social responsibility. Accepted articles must be empirical research, literature reviews, or theoretical concepts related to the research topic. Articles that do not meet the inclusion criteria, such as articles that are unrelated to the topic or do not have a clear methodology, will be rejected. In addition, this study will also look at the accuracy, quality and relevance of the selected articles to ensure that the data obtained can support a comprehensive and valid analysis. By using a systematic literature review approach, it is hoped that this study can provide an in-depth understanding of the relationship between Islamic ethics in business and finance with corporate governance and social responsibility, as well as provide valuable insights for practitioners, academics and other stakeholders.

## **3. Results and Discussions**

### **3.1 Islamic ethical principles relevant to GCG**

#### **3.1.1 Accountability: Trustworthy, fair, transparent**

Islamic ethical principles are integral in guiding Good Corporate Governance (GCG) practices. These principles, deeply rooted in Islamic teachings, are crucial for ensuring accountability, trustworthiness, fairness, and transparency in business operations. Islamic business ethics emphasize values such as honesty, fairness, responsibility, and transparency (Jumardi et al., 2022). These principles prohibit unethical practices like usury and investing in activities deemed undesirable, such as gambling (Kazmi, 2020). In the context of GCG, Islamic ethics stress the importance of fair pricing based on market segments and providing value-added products to consumers (Junaedi & Prihanisetyo, 2022).

Moreover, Islamic ethical principles advocate for the implementation of governance practices that align with Shariah principles, emphasizing proper bookkeeping, disclosure, and transparency (Bhatti & Bhatti, 2010). The principles of Islamic ethics also encompass concepts such as monotheism, balance, free will, responsibility, and benevolence, which are crucial for fostering a just and ethical business environment (Budiman, 2020). Additionally, Islamic values support frameworks that promote accountability, good governance, and transparency, which are vital for effective Zakat management (Tahlilani, 2018).

In the realm of Islamic business management, principles like balance, free will, responsibility, and truth are fundamental for ensuring ethical practices in marketing, human resource management, and financial management (Ahyani et al., 2022). These principles guide business actors in upholding noble moral values such as fairness, honesty, trustworthiness, and professionalism (Amalia, 2014).

Furthermore, Islamic ethics underscore the importance of implementing ethical business practices in various aspects, including management, marketing, advertising, and product pricing.

Overall, Islamic ethical principles provide a robust foundation for promoting GCG by emphasizing integrity, fairness, responsibility, and transparency in business operations. By adhering to these principles, organizations can cultivate a culture of ethical conduct, accountability, and trust, which are essential for sustainable and responsible business practices.

### **3.1.2 Transparency: Siddiq, openness of information**

Islamic ethical principles play a significant role in guiding Good Corporate Governance (GCG) practices. These principles emphasize transparency, accountability, responsibility, independence, equality, fairness, and openness (Adiwijaya et al., 2023). In the context of Islamic banking, Corporate Governance (CG) models are being developed to align with Islamic operational principles, ensuring compliance with Islamic ethical standards (Şencal & Asutay, 2020). Islamic financial institutions in the Gulf Cooperation Council (GCC) region are particularly focused on incorporating Islamic ethical values into their governance frameworks (Safieddine, 2009).

The principles of Islamic ethics, such as honesty, integrity, loyalty, responsibility, fairness, and citizenship, are fundamental in shaping the ethical code for directors and employees within Islamic organizations (Schwartz et al., 2005). Furthermore, Islamic work ethics provide guidelines for employees to sustain organizations in a manner consistent with Islamic values and corporate social responsibility (Asha'ari, 2018). The concept of Customer-centric Corporate Social Responsibility (CSR) within Islamic ethics and good corporate governance is being explored to enhance the sustainability performance of Islamic banking institutions (Oktaviana & Miranti, 2023).

Islamic Corporate Governance (ICG) emphasizes the importance of transparency, disclosure, and accountability based on Shariah principles, ensuring proper bookkeeping and financial reporting (Bhatti & Bhatti, 2010). Additionally, the role of Shariah supervisory boards in Islamic banks is crucial for ensuring compliance with Islamic principles and ethical expectations, providing certainty to shareholders and clients (Jati et al., 2020). The implementation of Islamic Corporate Governance (ICG) and Intellectual Capital (IC) is essential for achieving the Islamicity Performance Index in Shariah-compliant banks (Sumartiningrum & Salahuddin, 2022).

In summary, Islamic ethical principles are deeply intertwined with Good Corporate Governance practices in Islamic organizations, guiding transparency, accountability, and ethical behavior. These principles not only shape governance frameworks but also influence decision-making processes, financial reporting, and sustainability initiatives within Islamic institutions.

### **3.1.3 Justice: Avoid usury, equality**

Islamic ethical principles play a significant role in guiding Good Corporate Governance (GCG) practices, particularly in areas such as justice, avoidance of usury, and equality. Islamic corporate governance is distinct in its stakeholder-oriented approach, emphasizing principles like transparency, accountability, responsibility, independence, equality, fairness, and openness (Adiwijaya et al., 2023). Islamic banks, operating under Islamic law, prioritize wealth sharing, general well-being, and justice, which can conflict with profit maximization goals in conventional banking (Grassa et al., 2020). The principles of Islamic business ethics are rooted in justice, balance, freedom, and responsibility, reflecting the ethical expectations of Islamic teachings (Juliana et al., 2019).

In the context of GCG in Islamic financial institutions, adherence to Islamic principles is crucial. Islamic Corporate Governance (ICG) and Intellectual Capital (IC) are essential for aligning banking practices with Islamic ethics and achieving the goals of Sharia compliance (Sumartiningrum & Salahuddin, 2022). The governance structure of Islamic banks must navigate between religious principles and regulatory requirements, ensuring compliance with both Islamic values and international standards

(Franzoni & Allali, 2023). Stakeholder-oriented models of Islamic corporate governance reflect the emphasis on justice and equality inherent in Islamic teachings (Mahadi et al., 2018).

Islamic inheritance laws also embody principles of justice, aiming to ensure unity and sustainability in collective life (Zainuddin et al., 2023). Justice in Islamic ethics goes beyond mere equality, encompassing fairness and adherence to Islamic values regardless of changing circumstances (Urrosyidin et al., 2022). The role of GCG in Islamic banking is pivotal for enhancing financial performance while upholding Islamic principles, offering a solution for the sustainable development of Islamic banking institutions (Syah, 2021).

In conclusion, Islamic ethical principles provide a robust framework for guiding Good Corporate Governance practices in Islamic financial institutions, emphasizing justice, avoidance of usury, and equality. By integrating these principles into governance structures, Islamic banks can uphold ethical standards while ensuring sustainable and responsible financial practices.

#### **3.1.4 Responsibility: Maslahah, welfare of stakeholders**

Islamic ethical principles relevant to Good Corporate Governance (GCG) emphasize stakeholder welfare and responsibility. Islamic Corporate Governance (ICG) aligns with conventional GCG but is more stakeholder-oriented (Adiwijaya et al., 2023). Islamic banks are known for their reliable governance model that prioritizes accountability to safeguard stakeholders' rights and interests (Srairi, 2015). Islamic corporate social responsibility (CSR) models are developed based on ethical axioms like unity, equilibrium, free will, and responsibility, along with the principles of Shariah and public interest (maslahah) (Hanić & Smolo, 2022). The application of GCG principles, including transparency, accountability, and justice, is crucial for the survival of companies (Prativi et al., 2021).

Islamic ethics play a significant role in shaping corporate governance practices in Islamic institutions. The Sharia supervisory board ensures adherence to Islamic principles, providing certainty to shareholders and clients regarding ethical compliance (Jati et al., 2020). The roles of Shariah supervisory boards in Islamic banking are crucial for ensuring compliance with Islamic principles and preventing breaches in banking operations (Mohammed & Muhammed, 2017). Islamic Corporate Governance (ICG) and Intellectual Capital (IC) are essential for achieving the goals of establishing Sharia-compliant banks (Sumartiningrum & Salahuddin, 2022).

Islamic work ethics are highlighted as crucial for corporate sustainability, emphasizing the importance of ethical values in achieving sustainability goals (Asha'ari, 2018). Islamic banks' Corporate Governance models must align with religious principles while complying with national and international regulations and best practices (Franzoni & Allali, 2023). Islamic Corporate Governance structures are stakeholder-oriented, reflecting the importance of considering stakeholders' interests in decision-making processes (Mahadi et al., 2018).

In conclusion, Islamic ethical principles underpin the governance frameworks of Islamic institutions, emphasizing stakeholder welfare, accountability, and adherence to Sharia principles. These principles guide the development of Islamic CSR models, governance structures, and ethical decision-making processes within Islamic organizations.

#### **3.2 Mechanism for implementing Islamic ethics in GCG**

Implementing Islamic ethical principles in Good Corporate Governance (GCG) involves aligning corporate practices with Sharia principles. Islamic financial institutions face challenges in balancing agency theory mechanisms with Sharia principles (Safieddine, 2009). Studies show that Islamic banks adhere to a significant portion of corporate governance attributes, indicating a commitment to GCG (Srairi, 2015). The emergence of Islamic banks led to exploring unique governance structures in line with Islamic operational principles (Şencal & Asutay, 2020).

Corporate governance characteristics like board independence and governance quality help reduce risk exposure in Islamic mutual funds (Naveed & Abdin, 2020). Incorporating Islamic principles

into GCG can enhance the performance of Islamic banking institutions (Syah, 2021). Shariah supervisory boards play a crucial role in ensuring compliance with Islamic principles in banking operations (Mohammed & Muhammed, 2017). Islamic corporate governance, similar to conventional GCG, is vital for Islamic financial institutions (Adiwijaya et al., 2023).

Islamic ethical identity, Islamic intellectual capital, and Zakat impact sustainable business practices when integrated into Islamic corporate governance (Prativi et al., 2021). The Islamicity Performance Index measures the effectiveness of Islamic Corporate Governance and Intellectual Capital in achieving Sharia compliance (Sumartiningrum & Salahuddin, 2022). Shariah accounting standards, audit, supervision, and work ethics are essential for preparing quality financial statements in Islamic institutions (Rahmadieni, 2019).

Ethics, religion, and legal principles form the foundation of Islamic finance law, emphasizing the importance of ethical considerations in Islamic banking (Hosen et al., 2019). Good governance principles, such as transparency and accountability, strengthen Zakat management in Islamic contexts (Tahliani, 2018). Islamic work ethics guide employees in promoting corporate sustainability in line with Islamic values (Asha'ari, 2018).

In conclusion, integrating Islamic ethical principles into GCG involves adapting governance structures to comply with Sharia principles, ensuring transparency, accountability, and ethical conduct in Islamic financial institutions.

### **3.2.1 Islamic structure of the board of commissioners and directors**

Islamic ethical principles play a significant role in guiding Good Corporate Governance (GCG) practices, particularly in the context of Islamic banks and institutions. The structure of the board of commissioners and directors in Islamic organizations is crucial for upholding these principles. Research by Darwanto & Chariri (2019) emphasizes the importance of the Sharia Supervisory Board in Islamic banks as a key component of GCG, alongside traditional governance mechanisms like the Board of Commissioners and Directors. This multi-layered approach to governance is unique to Islamic institutions, ensuring compliance with Sharia principles.

Furthermore, studies by Safitri & Mukhibad (2020) and Pranata & Laela (2020) delve into the influence of Islamic Corporate Governance (ICG) components, such as the Sharia Supervisory Board, on the performance of Islamic banks. These studies highlight the significance of board characteristics, including independence, expertise, and adherence to Sharia principles, in driving organizational performance aligned with Maqashid Shariah.

Moreover, the research by Ifada et al. (2021) and Aisyah et al. (2022) sheds light on the role of the board of commissioners in influencing Islamic social reporting and financial performance in Islamic banks. The expertise and composition of the board of directors are crucial factors in enhancing financial performance and ensuring adherence to Islamic ethical standards.

In conclusion, the structure of the board of commissioners and directors in Islamic organizations plays a pivotal role in upholding Islamic ethical principles and driving organizational performance in alignment with Sharia values. By incorporating Sharia Supervisory Boards and adhering to ICG principles, Islamic institutions can ensure sound governance practices that resonate with Islamic ethics and principles.

### **3.2.2 Company code of ethics based on Islamic values**

Islamic ethical principles play a significant role in guiding corporate behavior and governance. Islamic banks, for instance, are built upon the ethical framework of Shariah law, which emphasizes values such as transparency, accountability, and responsibility (Haniiffa & Hudaib, 2007). The principles of good corporate governance in Islam are more stakeholder-oriented rather than shareholder-oriented, reflecting a broader ethical perspective (Pahlevi, 2022). Islamic corporate governance models aim to



align with Islamic principles to establish a distinctive governance structure that adheres to Islamic operational values (Şencal & Asutay, 2020).

In the context of marketing, Islamic principles advocate for ethical marketing practices focused on value-maximization rather than profit-maximization, fostering a culture of ethical behavior (Abbas et al., 2019). Furthermore, Islamic social reporting by banks serves as a form of social responsibility, ensuring compliance with Islamic principles and meeting ethical expectations (Jati et al., 2020). The disclosure items in corporate social reporting frameworks are derived from Islamic ethical principles, highlighting the integration of these values into business practices (Tilt & Rahin, 2015).

Islamic corporate governance is designed to protect the interests of all stakeholders by incorporating decision-making based on Islamic socio-scientific epistemology, emphasizing the unity of Allah (Syah, 2021). Additionally, Islamic ethical responsibilities in business underscore the importance of sustainable development and ethical conduct within organizations (Hassan, 2016). Islamic work ethics play a crucial role in enhancing corporate sustainability performance, aligning with environmental protection efforts and sustainability issues (Asha'ari, 2018).

Overall, Islamic ethical principles provide a robust foundation for corporate governance, marketing practices, and social responsibility initiatives within Islamic financial institutions. By integrating these principles into their operations, companies can uphold values such as accountability, transparency, and stakeholder welfare, contributing to sustainable and ethical business practices.

### **3.2.3 Sharia internal audit system**

Islamic ethical principles are fundamental in guiding Good Corporate Governance (GCG) practices within Islamic financial institutions. The principles of Sharia compliance and Islamic Corporate Governance (ICG) are deeply rooted in Islamic ethics and values. These principles emphasize transparency, accountability, responsibility, independence, and justice (Prativi et al., 2021). In Islamic banks, the Sharia Supervisory Board ensures that operations align with Islamic principles, providing certainty to shareholders and clients regarding ethical compliance (Jati et al., 2020). Sharia auditing is essential to maintain the integrity of Islamic financial institutions by upholding Sharia principles (Rizqiani & Yulianto, 2020).

Islamic Corporate Governance differs from conventional GCG, as it is more stakeholder-oriented rather than shareholder-oriented, reflecting the unique ethical framework of Islam (Pahlevi, 2022). The application of ICG is similar to conventional GCG, emphasizing the importance of governance structures in upholding ethical standards (Adiwijaya et al., 2023). The governance of Islamic banks is influenced by Sharia principles, such as tawhid and shura, which shape the Corporate Governance models of these institutions (Franzoni & Allali, 2023).

Islamic ethical principles also influence risk disclosure practices in Islamic banks, highlighting the importance of aligning corporate attributes with Islamic values (Grassa et al., 2020). The agency structures within Islamic banking must balance Sharia compliance with protecting investors' rights, showcasing the intricate relationship between Islamic ethics and governance mechanisms (Safieddine, 2009). Moreover, the implementation of ICG and Intellectual Capital (IC) aims to establish Sharia-compliant banks in accordance with Maqashid Sharia, measured through the Islamicity Performance Index (Sumartiningrum & Salahuddin, 2022).

In conclusion, Islamic ethical principles underpin the foundation of GCG in Islamic financial institutions, guiding practices related to transparency, accountability, and stakeholder interests. These principles ensure that Islamic banks operate in alignment with Sharia values, emphasizing ethical conduct and social responsibility within the framework of Corporate Governance.

### **3.2.4 Islamic ethics training for employees**

Islamic ethical principles play a significant role in guiding corporate governance practices within Islamic organizations. These principles emphasize stakeholder orientation over a shareholder-centric

approach (Pahlevi, 2022). Islamic work ethics are crucial for enhancing employee performance, with a specific emphasis on the application of Islamic work ethics in organizations like Bank Jateng Syariah (Widyarini & Muafi, 2021). Studies have explored the integration of Islamic principles into corporate governance structures, aiming to align them with Islamic operational principles unique to Islamic banks (Şencal & Asutay, 2020). The application of Islamic Corporate Governance (ICG) is noted to be akin to conventional Good Corporate Governance (GCG) practices (Adiwijaya et al., 2023). Furthermore, Islamic corporate governance disclosure, along with Islamic intellectual capital and ethical identity, is essential for sustainable business practices (Prativi et al., 2021).

Islamic work ethics have been found to positively influence job satisfaction and employee performance, particularly in settings like four-star hotels (Saban et al., 2020). However, research indicates that GCG has not been effectively implemented in Islamic banking across various countries ("SHARIA COMPLIANCE AND ISLAMIC CORPORATE GOVERNANCE", 2019). The incorporation of Islamic financial institutions in the GCC region has provided new insights into corporate governance practices aligned with Islamic principles (Safieddine, 2009). Additionally, Islamic work ethics have been identified as mediators that can positively impact job performance, particularly in environments like Bank Muamalat (Aprianita & Nurhayati, 2021).

Islamic principles are integral to shaping corporate governance frameworks in Shariah-compliant firms, reflecting a rising concern for governance aligned with Islamic rules (Ullah et al., 2022). Studies have shown that Islamic banks adhere to a significant portion of corporate governance attributes, indicating a commitment to Islamic principles in governance practices (Srairi, 2015). Moreover, the disclosure items in corporate social reporting frameworks are derived from Islamic ethical principles, emphasizing transparency and accountability (Tilt & Rahin, 2015). The principles of hisbah, shura, disclosure, transparency, and religious audit are fundamental Islamic values that support good governance practices (Tahliani, 2018). In conclusion, Islamic ethical principles play a vital role in shaping corporate governance practices within Islamic organizations. These principles emphasize stakeholder orientation, transparency, accountability, and adherence to Islamic values. By integrating Islamic work ethics and governance structures, organizations can enhance employee performance, ensure sustainability, and align their practices with Islamic principles.

### **3.3 The impact of applying Islamic ethics on GCG**

#### **3.3.1 Increased accountability and transparency**

Applying Islamic ethics in the context of Good Corporate Governance (GCG) has been shown to significantly enhance accountability and transparency within Islamic financial institutions. Islamic banks demonstrate a high level of compliance with Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards, reflecting a dedication to ethical financial and governance practices (El-Halaby & Hussainey, 2016). This adherence to standards is crucial for ensuring transparency and accountability within Islamic banking institutions.

Additionally, the implementation of Islamic Corporate Governance (ICG) principles has been associated with improved financial performance in Islamic banking. Studies have indicated that the development of Intellectual Capital (IC) and the application of GCG positively impact the financial performance of Islamic banks, underscoring the importance of ethical governance practices in driving financial success (Dewi & Sudarmawan, 2022). Islamic ethics also influence stakeholder perceptions and behavioral responses towards governance practices in Islamic banks. Stakeholders' views on transparency, accountability, and ethics in Islamic banks are pivotal for effective governance, highlighting the importance of ethical considerations in governance frameworks (Soni et al., 2021).

Moreover, the ethical and social commitment of Islamic banks towards society is strengthened through increased transparency, offering a clearer view of their ethical practices and social responsibilities. This transparency helps build trust and credibility among stakeholders, emphasizing the significance of ethical conduct in Islamic banking operations (San-Jose & Cuesta, 2019). In conclusion,

the application of Islamic ethics in GCG not only promotes accountability and transparency but also impacts financial performance, stakeholder perceptions, and social responsibility practices within Islamic financial institutions. By upholding ethical principles in governance frameworks, Islamic banks can enhance their relationships with stakeholders and contribute to sustainable business practices.

### **3.3.2 Increased stakeholder trust**

Applying Islamic ethics in the context of Good Corporate Governance (GCG) has been shown to significantly impact stakeholder trust. Research by Beekun & Badawi (2005) emphasizes that Islamic business ethics, which include principles like justice, balance, trust, and benevolence, align well with stakeholder theory, thereby enhancing trust (Beekun & Badawi, 2005). Furthermore, studies by Alwi et al. (2021) and Abbas et al. (2019) highlight that Islamic ethics, whether in banking or marketing, lead to increased trust and satisfaction among stakeholders (Alwi et al., 2021; Abbas et al., 2019). This trust is further reinforced by the positive influence of Islamic ethical behavior on customer trust, loyalty, and satisfaction in Islamic banking, as demonstrated by Widjajanta et al. (2021) and Widjajanta et al. (2021) Wijaya et al., 2021).

Moreover, the implementation of Islamic work ethics has been found to positively affect corporate sustainability performance across economic, environmental, and social dimensions, as indicated by Asha'Ari (2018) (Asha'ari, 2018). Additionally, the study by Reskino (2023) suggests that Islamic work ethics, coupled with good corporate governance practices, play a role in mitigating fraudulent financial activities within Islamic financial institutions (Reskino, 2023).

In the realm of Islamic banking, the application of Good Corporate Governance (GCG) is crucial for fostering transparency, efficiency, and trust. Studies by Wafi (2020) and Handayani et al. (2022) stress the importance of GCG in creating a healthy and transparent business environment within Islamic banking institutions (Wafi, 2020; Handayani et al., 2022). Furthermore, the correlation between bank soundness levels and the disclosure of ethical identity in Islamic commercial banks, as explored by (Chindo et al., 2022), underscores the significance of GCG in upholding ethical standards (Chindo et al., 2022). In conclusion, the integration of Islamic ethics into Good Corporate Governance practices not only enhances stakeholder trust but also contributes to sustainable business performance and ethical conduct within Islamic financial institutions.

### **3.3.3 Increased company performance**

Applying Islamic ethics in the context of Good Corporate Governance (GCG) has shown a positive impact on company performance. Studies have indicated that Islamic work ethics play a crucial role in enhancing employee performance (Aprianita & Nurhayati, 2021; Zaim et al., 2021; Nurfahmiyati et al., 2019). Furthermore, the implementation of Islamic work ethics has been found to have a direct and positive influence on various dimensions of attitudes in organizational change and individual performance (Nurfahmiyati et al., 2019). Additionally, the effectiveness of Corporate Governance (CG) through the board of directors has been highlighted as a means to improve bank performance, leading to greater investor confidence in the market (Bukair & Rahman, 2015).

Moreover, the disclosure of Islamic ethics identities has been associated with a positive impact on financial performance in the context of Islamic banking (Marka & Serly, 2020). The ethical identity of Islamic banks, drawn from Sharia principles, has implications on corporate branding, image, and reputation, which are crucial aspects affecting overall performance (Haniffa & Hudaib, 2007). Additionally, the level of bank soundness and Good Corporate Governance (GCG) practices have been correlated with the disclosure of Islamic commercial banks' ethical identity, further emphasizing the importance of ethical considerations in banking operations (Chindo et al., 2022). In conclusion, the integration of Islamic ethics into Corporate Governance practices can significantly influence company performance, particularly in the banking sector. By upholding Islamic work ethics, promoting

transparency, and adhering to Sharia principles, organizations can enhance their operational efficiency, employee performance, and overall financial outcomes.

3.3.4 Creating an ethical and moral business

Applying Islamic ethics in corporate governance can have a profound impact on Good Corporate Governance (GCG). Islamic ethics, rooted in the principles of Sharia law, emphasize moral conduct, justice, and social responsibility. Studies have shown that Islamic business ethics positively influence various aspects of business operations. For instance, research by Haniffa & Hudaib (2007) highlights the importance of the ethical identity of Islamic banks in shaping corporate branding and reputation. Similarly, Najmudin et al. (2022) demonstrate the positive effects of Islamic business ethics on the performance of small and medium enterprises, indicating a significant relationship between ethical practices and business success.

Moreover, the study by Hassan (2016) underscores the alignment of Islamic ethics with sustainable development goals, emphasizing the moral and social responsibilities that businesses should uphold. This resonates with the findings of Asha’Ari (Asha’ari, 2018), which indicate a positive correlation between Islamic work ethics and corporate sustainability performance across economic, environmental, and social dimensions. Additionally, Salin et al. (2020) emphasize the role of Islamic ethics in enhancing organizational commitment and continuity, highlighting its economic, moral, and social dimensions.

Furthermore, Islamic business ethics have been found to impact brand credibility, as discussed by (Al-Nashmi & Almamary, 2017), and to influence consumer behavior and purchasing decisions, as evidenced by (Jannah et al., 2022). The research by Musa et al. (2020) suggests that Islamic financial institutions can enhance their practices by adhering to Islamic ethical norms, further emphasizing the practical implications of integrating Islamic ethics into business operations.

In conclusion, the application of Islamic ethics in business not only fosters ethical conduct and social responsibility but also contributes to improved corporate performance, brand credibility, and sustainability. By embracing Islamic business ethics, organizations can create a strong ethical foundation that aligns with principles of justice, fairness, and accountability, ultimately leading to enhanced corporate governance practices.

Research Framework

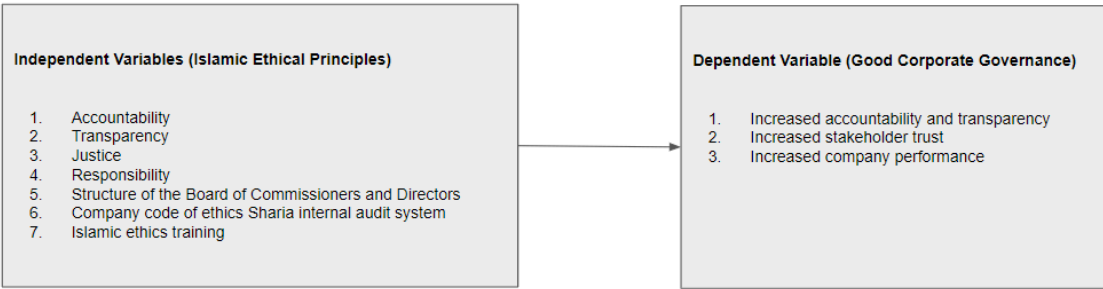


Figure 1. Research Framework

Hypothesis

**H1:** The application of Islamic Ethics Principles has a positive and significant influence on Good Corporate Governance within the organization.

#### 4. Conclusions

Based on the results of the discussion above, it can be concluded that the application of Islamic ethical principles in Good Corporate Governance (GCG) has a significant impact in the context of Islamic financial institutions. Islamic ethical principles, which include values such as accountability, transparency, justice, and responsibility, form a solid foundation for good corporate governance practices. The integration of these principles not only increases accountability and transparency, but also strengthens stakeholder trust, improves company performance, and creates ethical and moral business.

In the context of accountability and transparency, the application of Islamic ethical principles has been proven to increase compliance with accounting standards and audit practices, as well as improve the financial performance of Islamic financial institutions. These principles also influence stakeholders' perceptions and behavioral responses to corporate governance practices, which in turn strengthens the trust and credibility of Islamic financial institutions. Furthermore, the application of Islamic ethical principles in GCG also creates ethical and moral business. This is seen in business practices that promote justice, sustainability and social responsibility, as well as in the positive influence on brand image, consumer behavior and business sustainability. Thus, it can be concluded that the application of Islamic ethical principles in GCG is not only important for the financial success of Islamic financial institutions, but also for building trust, strengthening company performance, and realizing ethical and moral business.

This study faces several limitations that warrant consideration. Firstly, the availability of relevant and up-to-date data concerning the implementation of Islamic ethical principles in Good Corporate Governance (GCG) practices across various Islamic financial institutions may be restricted. This limitation could hinder the depth of analysis and the generalizability of findings, as inadequate data may impede a comprehensive understanding of the subject matter. Secondly, the geographical focus of this research may constrain its applicability. By concentrating solely on Islamic financial institutions from specific regions or countries with similar regulatory environments, the generalizability of findings to other regions might be compromised due to differing institutional characteristics and challenges. Additionally, cultural and social contexts, pivotal in shaping governance practices, may not be fully accounted for. This study might not fully consider the impact of these variables on the implementation of Islamic ethical principles in GCG, thus potentially limiting insights into their effects on corporate governance practices. Lastly, the chosen research methodology, while systematic in its approach to literature review, has inherent limitations. Future research might benefit from employing diverse methodological approaches, such as field studies or case analyses, to provide a more holistic understanding of the relationship between Islamic ethical principles and GCG practices in Islamic financial institutions. Considering these limitations, future research endeavors could focus on expanding the scope of inquiry, incorporating primary data collection methods, and adopting varied research methodologies to deepen understanding and overcome the identified constraints.

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