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Shariah-Compliant Governance and Corporate Financial Sustainability: A Critical Review of Theory and Evidence

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ABSTRACT

As Islamic finance continues to gain traction worldwide, academic circles differ on whether Shariah-compliant governance (SCG) drives corporate financial sustainability (CFS) or merely adds to business expenses. However, research on this topic remains limited and inconclusive. To bridge this research gap, this study is the first to conduct a systematic literature review and critical narrative synthesis of 59 peer-reviewed articles published between 2020 and 2025 on the impacts of Shariah governance setups, such as Shariah supervisory boards (SSBs), corporate governance mechanisms, and Maqasid al-Shariah principles, on a company's financial performance, resilience, longevity, and value. The results indicate that SCG positively affects CFS, but the effects may vary by composition, context, and research design. The results suggest that the larger the SSB, the more knowledgeable and trustworthy the members; the more independent the members, the greater the performance improvement. Scholars have noted a lack of consensus on the best SSB board composition. This study presents the best and worst practices for corporate boards in Islamic finance organizations. This study identifies valid shortcomings in theorization, namely the absence of robust theoretical models and structures that test multiple mediator and moderator constructs. The research also indicates that most existing SSB-related studies have been conducted in Gulf Cooperation Council (GCC) countries and Southeast Asia; as a result, they may not be valid in other regions of the world. This study is the first comprehensive study to offer a detailed conceptual system. It combines five independent variables, three moderators, three mediators, and four control variables into a single conceptual system that presents testable hypotheses to check the effects of secondary variables and diagrams to interpret the influence of board variables on CFS. The findings will be valuable to policymakers and regulators in determining minimum SSB requirements and constraints on independence; managers and board members in improving the effectiveness of governance disclosures and building intellectual capital; and researchers in establishing, developing, and solidifying the research agenda and pathways.

Keywords: Shariah-Compliant Governance, Shariah Supervisory Board, Corporate Financial Sustainability, Islamic Corporate Governance, Maqasid al-Shariah

INTRODUCTION

Islamic finance has made considerable progress in the past two decades. The total assets of Islamic banks, capital markets, and takaful companies exceed USD 3 trillion (Mergaliyev et al., 2021). Islamic financial institutions (IFIs) have unique governance structures. In comparison with traditional corporate governance, which emphasizes the increase in shareholders' wealth, Shariah-compliant governance (SCG) introduces the religious elements of Shariah supervisory boards (SSBs), Maqasid al-Shariah (the higher objectives of Islamic law), and Islamic ethical identity (Achyani et al., 2025; Alam et al., 2022). However, concerns remain regarding whether unique IFI governance is essential for improving corporate financial sustainability (CFS). This may involve additional costs that could harm financial performance (Farhat & Hili, 2025; Saba et al., 2021).

Other evidence implies insignificant or even negative impacts (Badshah et al., 2021; Tashkandi, 2022). These differences stem from variations in research methods, geographic locations, and a weak theoretical basis for explaining how Shariah governance influences financial performance. Most of these studies are descriptive and fail to scrutinize the underlying assumptions, causal direction, and endogeneity issues. In addition, this line of research does not contain summaries of the findings, nor does it contain critical methodological reviews, or attempts to reconcile mixed results from different board forms and institutional settings into coherent, unified, and testable theories. This review aims to bridge this gap by systematically synthesizing and critically examining the evidence linking SCG and CFS.

To address this situation, this literature review performed three main tasks. First, this study presents a thorough critique of the existing theories and evidence on how SCG mechanisms affect CFS. Second, this study develops a comprehensive conceptual model that incorporates key independent variables, such as Shariah governance characteristics, moderating and mediating mechanisms, and control variables. Third, this study aims to highlight unresolved theoretical issues, identify limitations that further research could address, and suggest future lines of work that would help researchers deepen their knowledge and help practitioners apply Islamic finance policies.

LITERATURE REVIEW

Theoretical Foundations

The basic theories of SCG combine several different opinions and may sometimes be contradictory. The first perspective can be labeled the 'agency theory.' 'SSBs act as agents to lower the information gap between management and shareholders to a level at which managerial actions comply with shareholders' preferences' (Jan et al., 2021; Kismawadi, 2025). Because the conventional notion of agency considers only economic incentives, it may not fully explain religious and moral considerations embedded in Islamic law. To explain the religious considerations, some authors suggest adding the divine aspect of accountability (taqwa). These scholars hold that, in the Islamic context, managerial accountability is to shareholders and Allah (SWT) under Shari'ah (Pudjiono et al., 2025).

The second perspective, which is toward stakeholder theory, appears to substantiate these statements: the core responsibility of SSB is to cater to the needs of various groups or entities that are affected by or have a direct say, whether that is depositors, the community, or the whole society (based on Maqasid al-Shariah principles) (Mergaliyev et al., 2021; Mohd Zain, Wan Abdullah, et al., 2025). This condition is consistent with Islamic doctrines, such as social justice among society members, wealth redistribution, and environmental sustainability (Farabi et al., 2025). The third perspective, Resource Dependence theory, shows how SSBs leverage religion, social legitimization, and networking ties to boost company performance (Kok et al., 2022; Kok & Shahgholian, 2023).

The fourth perspective is legitimacy theory, which suggests that Shariah governance offers SSBs a social license to operate in Muslim-majority countries (Jan et al., 2021). None of the four theories is mutually exclusive or contradictory, but all can help develop a broad understanding of the

SCG phenomenon (its roles and effects). Agency theory (taqwa-based accountability) explains why SSBs observe and restrain management. In contrast, stakeholder and legitimacy theories explain why SSBs expand their supervision of management to other types of stakeholders (public interest and Islamic stakeholders). Resource Dependence theory explains how SSBs leverage their social and religious legitimacy to generate performance advantages through networking and reputation. This review employs an integrative approach that considers all four theories, analyzes the findings, and serves as the foundation for the conceptual model in this study.

Empirical Evidence on Shariah Governance and Financial Sustainability

SSB Characteristics

Most existing research focuses on SSB characteristics as the determining factor of financial performance. Grassa et al. (2023) conducted a meta-analysis of 46 studies and found that SSB meetings, shareholder qualifications, and other related factors positively contributed to the performance of Islamic banks (2023). BenSaid (2025) argues that apart from SSB size, other factors, such as the member's reputational status and qualifications, are key factors in determining the financial performance of takaful insurance. However, these effects vary across studies, highlighting the importance of context.

However, Sueb et al. (2022) suggest that although SSB size positively affects financial performance, this is more likely to be a nonlinear relationship, as it provides greater expertise and more effective monitoring by the board of directors. Kismawadi (2025), using data from 20 countries, indicates that a larger SSB enhances bank performance. Kok et al. (2022) demonstrated a trade-off between tenure and independence (2022). In the case of nonlinear regression, performance first increases but then decreases with an increase in tenure length. To sum up, board composition has to be properly balanced to avoid situations that suggest "the bigger the better."

Certain qualifications beyond professional excellence may also positively affect the output. Research in Malaysia, the GCC countries, and other Asian regions shows that holders of doctorates in Islamic finance, Shariah knowledge, and banking expertise achieve superior financial results when they are members of the SSB (Abdul Rahim et al., 2024; Khan & Zahid, 2020; Mohd Zain, Abdullah, & Muhamad, 2025). However, it should also be mentioned that when it comes to qualitative improvements leading to better performance, the top scholars may still end up being the SSB chairs, which might have adverse effects such as entrenchment and conflict of interest (Virk et al., 2022).

The effects and reputation of SSB independence are multifaceted. One study argues that a large number of independent directors may lead to poor maqasid compliance. Thus, independence does not always imply better ethical performance. (Mergaliyev et al., 2021). However, another study found that SSB quality positively influences the relationship between board effectiveness and performance, suggesting that independence affects performance only through its interplay with other factors (Neifar et al., 2020).

Corporate Governance Mechanisms

SCG interacts with other traditional corporate governance mechanisms to influence CFS. Helmi et al. (2025) find that corporate governance affects Islamic banks more than conventional banks because of multiple layers of governance structures, such as SSBs, which the Composite Corporate Governance Index captures. Another study by Mohd Zain, Abdullah, and Muhamad (2025) also concludes that the mediating effect of governance disclosure explains the relationship between governance mechanisms and bank performance in Southeast Asia and the GCC.

Jabari and Muhamad (2021) conclude that gender diversity on the Board of Directors (BOD) and SSBs contributes to improving the financial performance of Islamic banks in Indonesia and Malaysia. However, these effects may be nullified in large banks. Marzuki et al. (2024) pointed out that a higher proportion of female directors may result in less risk-taking, which may mean lower return on assets, showing an inverse relationship between risk reduction and profits.

Sulistiani and Tjahjadi (2022) reveal that the size and composition of an audit committee directly influence sukuk ratings based on firm financial performance. Finally, Kateb et al. (2025) demonstrate the positive effect of independent audit committees on the performance of Islamic banking institutions according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Standard.

Maqasid Al-Shariah and Ethical Performance

Recent research appears to have shifted from financial ratios to Maqasid al-Shariah, the higher objectives of Islamic Jurisprudence. The complex maqasid-based performance index proposed by Mergaliyev et al. (2021) found that even with additional disclosure information, companies did not achieve the highest levels of performance. Variables such as the percentage of the Muslim population, CEO duality, and SCG positively impact Maqasid disclosures. Factors such as gross domestic product (GDP) and institutional ownership negatively affect Maqasid disclosures. Mohd Zain, Wan Abdullah, et al. (2025) introduced a sustainability performance index for takaful operators by integrating Maqasid al-Shariah and stakeholder perspectives. They found significant variation in takaful operators' performance.

Tarip (2024) explains Islamic entrepreneurship with reference to Islamic governance and argues that CFS must be integrated within the broader framework of Maqasid al-Shariah, which covers the protection of faith, life, intellect, posterity, and wealth. This approach helps to challenge the limited views of CFS often adopted in the extant literature.

Moderating and Mediating Mechanisms

The literature increasingly recognizes that SCG operates through both mediating and moderating effects. Intellectual capital has been identified as a mediator between corporate governance and financial performance. Environmental disclosure mediates the relationship between corporate governance and financial performance (Aslam et al., 2024; Mustafa et al., 2024). This is true for Saudi Islamic banks (Muneer et al., 2025). Risk-taking behavior also mediates the relationship between SSB and performance, whereby SSB characteristics influence risk appetite, which affects returns (Isa & Lee, 2020; Marzuki et al., 2024).

Moderating factors, such as country level, greatly affect the observed relationships. Abdul Rahim et al. (2024) show that Malaysian Islamic banks disclose more SCG than GCC banks, with Shariah committees being the most influential factor in performance. Effendi et al. (2023) reported that sukuk issuance weakens the relationship between IT investment and performance, whereas SCG strengthens it. Sharia-compliant companies that implement effective working capital management experience these crises differently than their conventional counterparts (Kayani et al., 2025).

Conceptual Framework

This study, grounded in the theoretical discussion and supported by the empirical works reviewed, proposes a conceptual model for the effect of SCG on CFS. The picture integrates, for one thing, the hypothetical relationships between the independent variables (SCG mechanisms), mediators, moderators, control variables, and, on the other side, the dependent (i. e., CFS) variable in the same illustration. The diagram is a clear, experimentable tool for future investigations, as it presents the relationship between two variables through (1) direct links, (2) mediating indirect paths, and (3) environmental variables that affect the link between the SCG and CFS.

Table 1 provides a precise description of the conceptual units in the first figure and ensures transparency, repeatability, and theoretical purity. Every part of the model explained is briefly described, with attention paid to the most important books, findings, and definitions. The first table connects the conceptual system with field studies, providing evidence for each variable as a visual guide.

Table 1*Summary of Variables, Definitions, and Empirical Evidence*

Variable Category	Variable	Definition	Key Empirical Findings	Representative Studies
DV: CFS	Financial performance (ROA, ROE, and Tobin's Q)	Accounting and market-based measures of firm profitability and value	Positive association with SSB characteristics; varies by context	Saba et al. (2021); Farhat and Hili (2025); Alnori and Bugshan (2023)
IV1: SSB Characteristics	Size, qualifications, reputation, independence	Attributes of SSBs monitoring compliance	Generally positive; curvilinear effects for tenure; reputation effects contingent	Grassa et al. (2023); Sueb et al. (2022); Kok et al. (2022)
IV2: BOD Characteristics	Size, independence, gender diversity	Conventional board governance attributes	Positive effects; gender diversity beneficial; stronger in Islamic banks	Helmi et al. (2025); Jabari and Muhamad (2021)
IV3: Audit Committee Characteristics	Size, independence, expertise, meetings	Sub-committee responsible for financial oversight	Independence positive; size effects mixed; expertise beneficial	Sulistiani and Tjahjadi (2022); Kateb et al. (2025)
IV4: Shariah Governance Disclosure	Transparency of Shariah compliance information	Extent and quality of Shariah-related reporting	Positive effect on performance; higher in Malaysia than GCC	Abdul Rahim et al. (2024); Khattak et al. (2020)
IV5: Maqasid al-Shariah Implementation	Achievement of higher Shariah objectives	Beyond basic compliance to ethical-societal goals	Mixed effects; improves legitimacy but may not enhance conventional metrics	Mergaliyev et al. (2021); Mohd Zain, Wan Abdullah, et al. (2025)
MED1: Risk-Taking Behavior	Credit risk, operational risk exposure	Bank risk preferences and management	Mediates SSB-performance link; Islamic banks show lower credit risk effects	Isa and Lee (2020); Hidayat et al. (2021)
MED2: Disclosure Quality	Transparency, AAOIFI compliance	Extent of voluntary and mandatory disclosure	Mediates governance-performance relationship	Ben Abdallah and Bahloul (2023); Muneer et al. (2025)
MED3: Intellectual Capital	Human, structural, relational capital efficiency	Knowledge-based organizational resources	Mediates the CG-financial performance relationship	Aslam et al. (2024); Mustafa et al. (2024)
MOD1: Country Context	GCC vs. Southeast Asia vs. other	Regional institutional and regulatory environment	Significant moderator; Malaysia shows stronger effects	Mohd Zain, Abdullah, and Muhamad (2025); Abdul Rahim et al. (2024)
MOD2: Crisis Periods	Financial crisis, COVID-19, oil price shocks	Economic uncertainty and disruption	Negative moderator; Shariah compliance provides resilience during crises	Kayani et al. (2025); Bugshan et al. (2023)
MOD3: Firm Type	Bank versus takaful versus non-financial	Industry sector differences	Significant moderator; effects strongest for banks	Mohd Zain, Wan Abdullah, et al. (2025); BenSaid (2025)
CV1: Firm Size	Total assets, market capitalization	Scale of operations	Positive control variable; may undermine gender diversity benefits	Jabari and Muhamad (2021); Alnori and Bugshan (2023)
CV2: Leverage	Debt-to-equity ratio	Financial leverage	Negative or mixed effects; Shariah restrictions limit conventional leverage	Alnori and Bugshan (2023); Sakti et al. (2020)
CV3: Firm Age	Years since establishment	Organisational maturity	Control variable; effects inconsistent	Ben Abdallah and Bahloul (2023)
CV4: Macroeconomic Conditions	GDP growth, inflation	Economic environment	Significant control; affects all firm types	Hidayat et al. (2021); Bugshan et al. (2023)

Note. DV = dependent variable; IV = independent variable; MED = mediator variable; MOD = moderator variable; CV = control variable.

METHODOLOGY

Search Strategy

This broad narrative review was based on a systematic search of the Scopus database. This is the largest abstract and citation database of peer-reviewed literature. On April 8, 2026, this study was searched using the following refined search string:

TITLE-ABS-KEY (("Shariah compliance" OR "Shariah governance" OR "Islamic governance" OR "Shariah supervisory board" OR "Maqasid al-Shariah" OR "Islamic ethical governance") AND ("financial sustainability" OR "firm performance" OR "financial performance" OR "corporate sustainability" OR "business resilience" OR "long-term value" OR "sustainable growth")) AND PUBYEAR > 2019 AND PUBYEAR < 2026 AND (LIMIT-TO (SUBJAREA, "BUSI") OR LIMIT-TO (SUBJAREA, "ECON")) AND (LIMIT-TO (DOCTYPE, "ar") OR LIMIT-TO (DOCTYPE, "re")) AND (LIMIT-TO (SRCTYPE, "j")) AND (LIMIT-TO (LANGUAGE, "English")) AND (LIMIT-TO (PUBSTAGE, "final")).

Inclusion and Exclusion Criteria

The following inclusion criteria were used for this review: (1) research papers that explored topics related to Shariah compliance, Shariah governance, Islamic governance, SSBs, Maqasid al-Shariah, or Islamic ethical governance; (2) studies focusing on linkages to financial sustainability, firm performance, financial results, corporate sustainability, business resilience, long-term value, or sustainable growth; (3) papers published between 2020 and 2025; (4) business/economics disciplines; (5) Articles/reviews; (6) academic journals; (7) written in English; and (8) at the final publication stage.

The literature search identified 117 articles for screening purposes. Based on the inclusion criteria, 59 articles were included in this study. The exclusion criteria were as follows: (1) 23 articles were not empirical, for example, commentaries without original data; (2) 12 duplicates were found across all databases; (3) 11 articles were mostly about conventional finance with few insights on SCG; and (4) 12 articles mentioned CFS in passing but did not provide broad coverage. Two rounds of screening were performed. The first round was an abstract-title screening to assess the inclusion criteria described above. In the second round, we performed a full-text screening to ensure that the inclusion criteria remained applicable to the retained articles. Once these articles were retained, each was screened on three aspects of quality: (1) the clarity of the research design, (2) the appropriateness of the empirical or analytical method adopted based on the research objective, and (3) the transparency of variable measurement to allow identification of studies with key methodological issues, which would be flagged up during the synthesis and not simply eliminated from consideration.

Analytical Approach

This review adopted a critical narrative synthesis, not a meta-analysis, because of the theoretical and methodological differences between the studies. Building on the two-stage screening and quality appraisal described above, the following steps of synthesis were undertaken: (1) thematic analysis, coding each article's findings against the variable categories in the conceptual framework, to identify key concepts and relationships; (2) critical assessment of methodological quality, drawing on the quality appraisal criteria applied during screening, to assess the potential limitations of each study's methodology (such as issues around endogeneity, sample selection, and measurement validity); (3) identification of conflicting results, and, if pertinent, comparison of samples, measures, and estimation methods used by the conflicting studies in each area of disagreement, to investigate the reasons for this divergence; (4) evaluation of the theoretical insights and their shortcomings against the integrated theoretical lens set out in the Literature Review; and (5) synthesis of the findings within the conceptual framework outlined above.

FINDINGS

Descriptive Overview of Included Studies

The study found 59 articles published from 2020 to 2025, with the highest number in 2025 ($n = 22$, 37.3%). This suggests a growing interest in SCG and CFS. Most studies focused on Malaysia ($n = 18$), Indonesia ($n = 14$), GCC countries (Saudi Arabia, the UAE, Bahrain, Kuwait, Qatar, and Oman; $n = 16$), and multi-country studies ($n = 11$). Whether these findings can be generalized to other Muslim-majority and Muslim-minority contexts remains an open question.

Most studies used quantitative ($n = 51$, 86.4%) rather than qualitative ($n = 5$, 8.5%) or mixed-methods ($n = 3$, 5.1%) designs. Most quantitative studies employ panel data regression methods, including fixed effects, random effects, and the Generalized Method of Moments (GMM). The study also found that only two studies used meta-analysis, suggesting opportunities for a quantitative synthesis. Reliance on secondary data, including annual reports, Bankscope, Compustat, and Bloomberg, raises concerns about common method and omitted variable bias.

Synthesis of Evidence by Relationship

Direct Effects of SCG on CFS

Evidence shows a significant positive direct effect of SCG on CFS. However, this depends greatly on the level of SCG. Saba et al. (2021) found that Shariah compliance improves firm value by preventing prohibited activities and ensuring transaction integrity. Farhat and Hili (2025) indicate that Shariah-compliant stocks tend to outperform and are less risky during different business cycles. Alnori and Bugshan (2023) found that cash holdings can significantly improve the performance of Shariah-compliant firms but are insignificant for conventional firms, suggesting that liquidity management is more important for Shariah-compliant firms than for conventional firms.

In contrast, Gunawan and Nakajima (2025) found that Shariah-compliant investments do not outperform traditional investments in Indonesia, while socially responsible investments appear to be resilient. This result indicates that Shariah-compliant investments do not necessarily outperform other investments but depend on their interaction with other ESG factors. Loang and Candra (2025) support this, revealing that ESG factors increase brand value and returns in Malaysia and Indonesia but have a weaker effect in Saudi Arabia, where Shariah compliance alone affects performance.

Mediating Mechanisms

The role of intellectual capital has been mentioned in some studies. Aslam et al. (2024) suggest that structural and relational capital play a positive mediating role in the association between corporate governance and financial efficiency in 125 Islamic banks operating in 26 Organization of Islamic Cooperation (OIC) countries. In addition, Mustafa et al. (2024) imply that human capital efficiency significantly and positively affects the performance of Jordanian financial institutions. Shariah compliance improves the influence of structural capital efficiency on the market value.

Disclosure quality is also an important factor in the relationship between governance and performance. For example, Ben Abdallah and Bahloul (2023) find that AAOIFI disclosure is significantly affected by measures of SCG but negatively affected by performance indicators such as ROA and ROE, suggesting that more profitable banks tend to disclose less. The benefit of sustainability performance disclosure in improving financial performance depends on whether a firm is Shariah-compliant. Khattak et al. (2020) found that sustainability performance disclosure improved financial performance for Shariah-compliant firms in Indonesia, but not for non-Shariah-compliant firms.

SSB risk-taking behavior is also related to performance. Isa and Lee (2020) found that Shariah-qualified, reputable SSB members are less likely to take risks than others; however, members who qualify in finance are more likely to take risks than others. Marzuki et al. (2024) found that larger SSBs

are more likely to engage in risk-taking activities, particularly those with more PhD members. However, their effects on performance are mixed. Consistent with the principle of risk sharing, Hidayat et al. (2021) find that Islamic banks are less concerned about credit risk.

Moderating Effects

The impact of SCG differs by country. Mohd Zain, Abdullah, and Muhamad (2025) reveal that governance mechanisms improve bank performance in Southeast Asia and the GCC, while disclosure is a greater mediator in the GCC. Similarly, Abdul Rahim et al. (2024) note higher SCG disclosure in Malaysia than in the GCC and point out that the Shariah committee is an important factor affecting Islamic bank performance.

Kayani et al. (2025) found that personal and professional relationships become strained or even collapse during a crisis. They also suggest that adhering to Shariah regulations strengthens one's position in a fluctuating economy. Bugshan et al. (2023) claim that oil price volatility has a greater adverse effect on the financial performance of Shariah-compliant Gulf companies than on their conventional counterparts because they cannot hedge within the limits of the Muslim faith and regulations. According to Kayani et al. (2025), Shariah-compliant companies in the UK performed well amid many difficulties because of effective working capital management during the Global Financial Crisis, pandemic, and the Russia–Ukraine war.

This study also reveals that firm type affects the results; the relationship between governance and performance is stronger for Islamic banks than for takaful operators or non-financial firms. BenSaid (2025) suggests that takaful performance depends on several factors, including SSB size, reputation, and qualifications. In contrast, Helmi et al. (2025) find that corporate governance affects Islamic banks more than it does Pakistani conventional banks. Another study by Mohd Zain, Wan Abdullah, et al. (2025) introduced a sustainability performance index for takaful operators and highlighted interesting differences in performance levels.

Critical Assessment of Evidence Quality

The following points should be considered as possible limitations of this study. First, this study does not fully address endogeneity. Most studies use lagged dependent variables or GMM estimators, with only a few using natural experiments, instrumental variables, or difference-in-differences, which may help establish causality. In this respect, Kholidah et al. (2025) exemplify best practice, as they used a difference-in-differences approach to analyze the effect of Islamic fintech lending on microenterprise performance.

Second, measurement validity is a concern. In some cases, researchers use simple yes/no indicators to measure whether a bank follows SCG practices; in others, they construct complex indexes. No standard measurement tool for SCG is available, making it difficult to compare studies and conduct meta-analyses. However, Lestari et al. (2025) identified five core ICG elements that can serve as a starting point for standardization.

Third, evidence suggests a sample-selection bias. Most studies cover only large and publicly listed IFIs. Smaller institutions and non-listed IFIs may have different governance structures than larger ones. Many studies cover only banks and ignore other growing areas, such as Islamic fintech, crowdfunding, and peer-to-peer lending (Muneem et al., 2025).

Fourth, the reported positive results likely reflect a publication bias. Most published studies report statistically significant results, and many studies with null or negative results remain unpublished because they lack registered pre-analysis plans. Although Grassa et al.'s (2023) meta-analysis partially addressed this problem through thorough search methods, formal tests for publication bias are rarely applied. The sample size was small. Although some studies report high sample sizes, they usually include only one country.

DISCUSSION

Theoretical Implications

This review has multiple implications for SCG and CFS research. This study provides new insights into key theoretical perspectives. First, this study argues that its conceptual framework in the SCG-CFS literature incorporates five independent variables related to governance and three mediators, moderators, and control variables in one coherent framework. This moves beyond the single-relationship studies that characterize the current state of research in this area. This conceptual framework challenges simple agency theory approaches that view SSBs as monitoring tools. Empirical evidence shows that SSBs play different roles, including monitoring, advising, legitimation, and network brokerage (Kok et al., 2022; Kok & Shahgholian, 2023), which go beyond reducing agency costs. Resource Dependence theory also accounts for how intertwined shareholder networks provide informational and reputational benefits.

Second, this study recognizes that Maqasid al-Shariah presents a broader theoretical model than conventional financial measures. Using maqasid-based ethical performance, Mergaliyev et al. (2021) showed that this type of performance can reflect unique company features that return on assets (ROA)/return on equity (ROE) may not capture. Therefore, corporate finance systems that combine conventional financial indicators with Islamic ethical performance measures can reveal these hidden aspects (Mohd Zain, Wan Abdullah, et al., 2025; Tarip, 2024).

Third, identifying mediating variables such as a company's intellectual capital, level of disclosure, and risk-taking behavior has enriched this study by clarifying the transmission channels. It is not sufficient to posit that social and stakeholder behavior (SSB) leads to a change in financial performance and that such a link is direct. Theories that explain SSB's effects on organizations should also address how SSB's characteristics, such as governance and leadership, are related to organizational processes. In addition, the theoretical discussion in the Conceptual System section above provides a foundation for developing new theories and hypotheses that guide future research.

Fourth, although certain SSB results on size, independence, and knowledge in the Findings section appear contradictory, they should not be dismissed as insignificant; they reveal aspects that both the conceptual structure and practical recommendations must address. For example, the nonlinear effect of SSB size and tenure (Kok et al., 2022), the relationship between independent directors and maqasid performance (Mergaliyev et al., 2021), and the contrasting riskiness of Shariah-qualified and finance-qualified members (Isa & Lee, 2020) indicate that SSB Characteristics (IV1 in Table 1) are likely better modeled as an interactive rather than an independent linear effect of size, independence, and expertise, in combination with the country and firm type context already included in the framework (MOD1 and MOD3). This has theoretical implications for how researchers test IV1 in future research (e.g., using interactions). It has Practical Implications for policymakers and board members to avoid implementing standardized rules for the desired SSB size and/or independence and instead design board composition to fit their own situation (see also Practical Implications below).

Practical Implications

These findings have several implications for policymakers and regulators. First, based on this study, a regulation requiring at least basic characteristics, such as expertise, capacity, and an independent mindset, to be fulfilled by the SSB is necessary. However, different situations may require different optimal structures. In addition, the role of the Shariah Committee in these matters supports the argument for taking the policy document of the Central Bank of Malaysia Shariah Governance (Bank Negara Malaysia [BNM], 2019), but also suggests that there are some additional areas, among which is risk management, that need to be covered within these additional tasks assigned to the SC, that is, product development and financial performance (Isa et al., 2022).

Second, the authors stress the need for mandatory and uniform SCG disclosures. Because the disclosure differences between Malaysia and GCC countries (Abdul Rahim et al., 2024) are substantial, voluntary disclosure will lead to erratic results. Although the AAOIFI standards act as a reasonable reference for performance, Kateb et al. (2025) caution that compliance does not automatically lead to performance.

Third, the three elements that the article authors equally stress- human, physical, and social capital - affect the governance performance relationship. Based on research (Aslam et al., 2024), companies should increase human resource development initiatives, knowledge retention initiatives, and overall stakeholder relationship management to improve governance performance.

Conclusively, the research findings lead IFI managers to understand that one of the most important aspects of the strategic management of SSB membership is composition rather than mere adherence to regulations alone. A larger SSB, with a mix of Shariah scholars, financial experts, and industry specialists, can yield better results. Board Interlocks and tenure can negatively affect board independence (Kok & Shahgholian, 2023; Virk et al., 2022). The participation of both men and women in decision-making at the BOD and SSB levels can lead to better outcomes.

Limitations of the Review

The present study has some limitations. First, this review is based only on articles published in the Scopus database, which may exclude relevant studies published in other databases, such as the Web of Science and Google Scholar, as well as non-English studies. Second, this review is limited to peer-reviewed articles and excludes grey literature, working papers, and book chapters that may contain new findings. Third, this review uses a critical narrative synthesis approach that can be applied to different types of literature but lacks precise effect size estimates and statistical tests of moderators, such as a meta-analysis. Finally, excluding pertinent reviews may have limited useful insights into this topic. Because most included studies reported positive results, this review may have publication bias that it could not address.

Future Research Directions

These findings highlight opportunities for future research. First, as noted in the Critical Assessment of Evidence Quality, future research must address endogeneity issues to identify the causality between changes in SCG and performance outcomes. Longitudinal studies are needed to track changes in SCG and performance outcomes. Regulatory changes in SSB requirements provide natural experiments for testing SCG effects. Second, because the evidence reviewed in this article was mainly concentrated in one region (the GCC), studies comparing results across regions and those examining areas outside the GCC and Southeast Asia could help explain why SCG effects differ across regions and countries by highlighting institutional and cultural differences. Third, in line with the preponderance of quantitative, secondary data studies found in the Descriptive Overview, qualitative and mixed-methods studies that examine how SSBs work, such as how they make decisions, interact with management, and affect corporate culture, will enhance the quantitative evidence base.

Fourth, future studies could move beyond the banking industry to less explored areas such as Islamic fintech, crowdfunding, peer-to-peer lending, and real estate investment trusts (Al-Haija & Syed, 2021; Kholidah et al., 2025; Muneem et al., 2025). Future studies should examine the relationship between SCG and environmental, social, and governance (ESG) factors. Loang and Candra (2025) highlighted country-specific differences in ESG and Shariah factors, calling for a closer scrutiny. A promising area for future research may be demand-side factors, which, among other techniques, can be studied using experimental and quasi-experimental methods that capture investors' reactions to SCG-related news.

CONCLUSION

This study reviewed 59 peer-reviewed articles on the effects of SCG on CFS. SCG mechanisms, especially SSB characteristics, Maqasid al-Shariah implementation, and governance disclosure,

positively affect financial performance, resilience, and the creation of long-term value. The results depend on contextual factors (crisis periods, firm type, and country), board configuration (size, independence, qualifications, and tenure), and the methodological choices. This study provides insights for researchers to expand the research boundary by addressing the methodological issues examined in the following section.

This study contributes to the literature in three ways. First, it offers a broad conceptual framework that considers five independent variables (BOD characteristics, SSB characteristics, Shariah governance disclosure, audit committee features, and Maqasid al-Shariah implementation), three mediators (risk-taking, intellectual capital, and disclosure quality), three moderators (crisis periods, country context, and firm type), and four control variables (firm size, age, use of debt, and macroeconomic conditions). Second, this study investigated the quality of the evidence by emphasizing several methodological problems, including endogeneity, geographical concentration, and inconsistent measurements. Third, this study suggests directions for future research. Future scholars are encouraged to consider theory-based causality studies, cross-regional comparisons, and sector-specific research.

These findings indicate that policymakers should consider implementing minimum SSB qualification requirements and independence criteria, and accounting for contextual factors. For practitioners, this study suggests improving CFS by focusing on SSB composition, developing intellectual capital, and strengthening governance disclosure. Researchers also have an important opportunity to develop theoretical perspectives and conduct empirical studies that provide greater insight into SCG as an exclusive organizational model with broader applications in ethical and sustainable finance, beyond Islamic finance.

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