

Implementation of Islamic corporate governance and competitive advantage in SMEs: A systematic literature review approach

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Abstract

In the case of Indonesia, research related to good governance in SMEs is categorized as relatively new and has received little attention. Attention to SMEs is deemed inadequate, while the development of Sharia-based SMEs. The development of Sharia-based SMEs should be the basis for building a solid halal industry construction. SMEs must be developed in order to create a prosperous society. However, whether the method and type of business taken in fulfilling the needs of life are in accordance with Islamic rules, that is the problem and must be a concern for business actors. In running an SMEs business, of course there are limitations in selecting and sorting the products that will be produced by business actors. This study comprehensively examines the topic of governance from an Islamic perspective through analysis of corporate models and conceptual empirical research. The next stage of this research is to review previous research that became a reference and show the things that happened in the literature both theoretically and empirically. Literature study, this research shows the main findings, namely the emergence of uncertainty in the results of the application of governance from an Islamic perspective and competitive advantage in SMEs. Previous researchers conducted related research showing different research results so that further research will be carried out for previous researchers by integrating the comparison pattern between the competitive advantages of conventional SMEs with sharia and the application of corporate governance in SMEs.

Introduction

Small and Medium Enterprises (SMEs) have a very important role in supporting the development and economic growth of a country, not only in developing countries such as Indonesia but also significantly affect the development and economic growth of developed countries. SMEs have proven to play an important role in solving problems for society and playing a role in economic development and growth. However, the development of SMEs in the era of free trade and the pandemic crisis, for example, depends on competitiveness and increased efficiency and the strength of business networks with other institutions. Thus the problem that occurs is how the business governance of the Syariah system of SMEs is carried out. The purpose of SME business activities cannot be separated from the financial system because after all, the money market and the real market are interrelated and need each other. Transactions will occur both as customers and as those who need funds to develop SME businesses. The SME business is engaged in financing in each interest-free credit transaction, both in collecting public investment savings or in financing for the business world that needs it.

Attention to SMEs is deemed inadequate, while the development of Sharia-based SMEs, in Islamic teachings is a teaching that is very concerned about the weak (Q.S Al-Hasyr: 7). The development of Sharia-based SMEs should be the basis for building a solid halal industry construction. SMEs must be developed in order to create a prosperous society. However,

whether the method and type of business taken in fulfilling the needs of life are in accordance with Islamic rules, that is the problem and must be a concern for business actors. In running an SME business, of course there are limitations in selecting and sorting the products that will be produced by business actors (Q.S An-Nahl: 115). The urgency of building Sharia-based SMEs has a noble goal. First, as a form of obedience to run Islamic law. Second, build the nation's economic progress, considering the demand for world halal products is increasing every year. To develop it, Sharia-based SME governance is needed, such as the application of guidelines or principles of corporate governance in its operations.

Furthermore, efforts to improve the business management of Sharia SMEs are urgently needed and the need to increase the capacity and capability of human resources for SMEs actors or managers regarding the concept of Sharia in business. In addition, the role and support of Islamic banking and financial institutions is needed to provide easy access for SMEs in financing. For this contribution, it is very necessary to have a means of expanding the market and access to capital, Sharia-based SMEs are expected to establish networking with various institutions, both private and government so that Sharia-based SMEs can develop and achieve competitive advantage. Jan et al. (2021) states that companies can refer to a corporate governance model that is based on the "principle of consultation" in which all stakeholders have one goal, namely Tawhid or the Oneness of Allah. It is also mentioned by Abu-Tapanjeh (2009) that conventional corporate governance and Islamic perspectives have many different points of view. The most important thing is the placement of the ideology of monotheism in the perspective of sharia against the ideology of rationalism in the conventional perspective.

Islamic corporate governance perspective or can be termed as Islamic Corporate Governance connects all concepts and practices in business governance with things that are transcendental to God. This is a consequence of the level of a Muslim's faith in Allah SWT. Therefore, the importance of the concept and practice of corporate governance has become a major topic of discussion with the development of Islamic Economics, which is a part of Islamic studies. For example Fatmawati et al. (2020) in her research shows the results between the theoretical and philosophical foundations of Islamic corporate governance which is a blend of Islamic economics with an institutional perspective. It was also stated by Abu-Tapanjeh (2009) that the Islamic perspective of corporate governance has a wider reach and does not separate roles and responsibilities in all actions and obligations under Islamic law, as well as the interests of all stakeholders.

The results of previous researchers show different research results so that there is a research gap, so research will be carried out to fill the gap by integrating the pattern of comparison of the level of competitive advantage of conventional and sharia SMEs: the application of corporate governance. Research on the comparison of Islamic and conventional corporate governance perspectives has been carried out by previous research, such as Abu-Tapanjeh (2009); Tarazi and Abedifar (2020); Srairi (2019); Kok and Filomenies (2020); Safiullah (2021); Chen and Yu (2021); Fatmawati et al. (2020); Imamah et al. (2019); Hashim et al. (2015). Research related to the relationship between the application of Islamic perspective governance and business sustainability was carried out by Jan et al. (2021), Islamic banking governance (Srairi, 2019; Erragragui & Revelli, 2016), the application of Islamic perspective governance in the Capital Market (Imamah et al., 2019; Alzahrani, 2019; Anwer et al., 2021).

Research on the application of corporate governance for developing countries has also been carried out by several previous studies such as Almaskati et al. (2020); Cumming et al. (2021); Oehmichen (2018); Ballester et al. (2020); Correa-Garcia et al. (2020); Haslam et al. (2019); Esqueda and O'Connor (2020); Tjahjadi et al. (2021); Tsafack and Guo (2021), development of corporate governance theory (Ararat et al., 2021; Ahmadi et al., 2019). Based on the topic studied by previous research, the object of research is banking, capital market. However, the phenomenon that occurs in Indonesia is that the problem that occurs is how the business governance of the Syariah system of SMEs is carried out. Attention to SMEs is deemed inadequate, while the development of Sharia-based SMEs, in Islamic teachings is a teaching that is very concerned about the weak (Q.S Al-Hasyr: 7). Research related to SME development is

limited to business development strategies and the application of ethical values, such as the results of research conducted by Yáñez-Araque et al. (2021) and topic in SMEs business sustainability (Vásquez et al., 2021; Samantha, 2018).

Literature Review

The literature review in this study begins with the uncertainty of the results of the implementation of Islamic corporate governance and competitive advantage in SMEs. Previous research that became the reference for this research was discussed in research related to corporate governance and Islamic perspectives. The results of the researchers also show different research results so that research on gaps will be carried out to fill the gap by integrating the pattern of comparison of the level of competitive advantage of conventional and sharia SMEs: the application of corporate governance. The results of the study of Abu-Tapanjeh (2009) explain that Islamic values have also instilled good corporate governance since the beginning of Islamization. Islamic society has its own views and values that are different from non-Islamic understandings. Strong belief in accountability in the world and previously having strong control in every Muslim's life and wider scope and obligation to implement broader corporate governance as compared to conventional principles. Therefore success and well-being are measured by moral obligations and spiritual ethics with a strong belief in accountability with Allah, as the highest authority. Mentioned by Abu-Tapanjeh (2009) and supported by Jan et al. (2021) that there are differences between conventional-based and Islamic values-based systems, conventional systems that have conflicting goals for stakeholders. Meanwhile, from an Islamic perspective, social welfare is the ultimate goal of every business, not maximizing the benefits of stakeholders (Chen & Yu, 2021).

Historical research has revealed that since the time of the Prophet Muhammad and his companions, people have been familiar with the concepts of healthy business management and have divine and human dimensions. This can be done through existing sharia provisions and efforts to run various institutions that can support good corporate governance and do not violate sharia provisions (Hashim et al., 2015). The principles of good corporate governance in Islam are more stakeholder oriented than shareholder oriented. If during the implementation of Good Corporate Governance always refers to the principles of Good Corporate Governance that are sourced from the values of capitalism, it is necessary to reconstruct the Corporate Governance so that it can be applied to sharia institutions. GCG implementation is very important in Islamic financial and banking institutions (Azmi et al., 2019). The overall argument of providing the theoretical foundation of the Stakeholder model of corporate governance in the Islamic economic system tries to establish that the goal of the company is to maximize the welfare of all stakeholders and not shareholders only (Ararat et al., 2021).

However, the observation that occurs is that the main goal of companies or organizations including so-called Islamic companies is to maximize shareholder wealth. This implies that in actual practice that many Islamic companies adopt a model of corporate governance with shareholders as a business goal compared to the interests of the stakeholders as a whole. It is a matter of academic and practical to separate and provide understanding. Not only prioritizing the theoretical foundation of Islamic corporate governance, but also to support it, empirical evidence and appropriate case studies are needed regarding corporate governance practices that may occur in the transformation of the concept of corporate governance from an Islamic perspective (Fatmawati et al., 2020; Alzahrani, 2019).

Differences in information and differences in interests between owners and managers encourage managers to act in personal interests and to the detriment of owners. Therefore, an employment contract needs to be made in the agency relationship between owner and manager to reduce manager conflicts that may occur (Yáñez-Araque et al., 2021). Thus, the focus of manager theory is in establishing the most efficient contract for the relationship between owner and manager to achieve the desired goals of the company or organization. In addition, the emergence of information discrepancies and conflicts of interest between owners and managers lead to inefficiency in the decision-making process (Abu-Tapanjeh, 2009). In the Islamic concept

the legal form of a company or business contract is determined by how capital is obtained, how labor is employed, how various factors are valued, who takes the policy, how many companies or contracts are put together, and who bears the risk of failure. The goal of Islamic companies is to maximize profit and at the same time maximize happiness (al-falaah), benefits (masalahah) and goodness (al-thayyibah) in an atmosphere full of brotherhood (al-ukhuwwah). Capital owners, managers, workers, suppliers, consumers, and all related parties interact and benefit each other. The form of Profit Loss Sharing (PLS) is quite dominant in the theoretical literature of Islamic finance. Although the concept of business/business based on Islamic values has been discussed for a long time, but when the facts on the ground are that the profit-loss sharing model is still a minority, there has actually not been a significant change in the behavior of the community and Islamic financial institutions towards the concept of conventional business/business based primarily on interest. or material. Thus, the desired optimal benefit is still very far from what is expected (Jan et al., 2021).

In addition, one of the problems that arise is that there is no fundamental and mental readiness for SMEs, in fact most companies still manage their business conventionally and have not implemented good corporate governance guidelines. In general, good corporate governance practices make companies have better performance, the failure of SMEs is the result of weak corporate governance practices (Samantha, 2018). Corporate governance is indeed not a solution to all the problems faced by SMEs, but governance is an unquestionable thing to achieve business success (Jewalikar & Shelke, 2017). The issue of implementing good governance in SMEs is still a matter of debate. Previous research has been conducted in several countries. The debate is about how appropriate governance norms and rules are (Vásquez et al., 2021). In the case of the results of the Indonesian study, good governance in SMEs is relatively new and has received little attention.

Research Methods

The next stage in this research is a research method with a study approach, and systematic mapping or often referred to as "systematic literature review". A systematic literature review aims to collect, clarify and analyze related to a particular topic. This systematic literature review is to carry out a systematic literature review, so that this research can be categorized as a tertiary literature review.

Step 1: Question Formulation

"How is the implementation of business governance and the level of competitive advantage in Conventional SMEs and Sharia SMEs?"

Step 2: Source Search

Looking for related sources (54 journal articles) September 13, 2021

Looking for related sources (20 journal articles) October 3, 2021

Looking for related sources (16 journal articles) October 5, 2021

Information:

- a) Materials are sourced from selected online databases.
- b) Certain terms "Islamic Corporate Governance and SMEs" must be contained in the "title, abstract and keywords".

Step 3: Evaluation and Selection (38 articles removed)

- a) Tabulate important information in articles into spreadsheets
- b) Selected articles investigating "Islamic Corporate Governance" and "SMEs" in English and included in the Scopus index (20 articles removed)
- c) Selected articles investigating less related "Islamic Corporate Governance" and "SMEs" (18 articles removed)

Step 4: Analysis and Synthesis (Analyzing the remaining 52 articles)

- a. Analyze selected articles using content analysis
- b. Synthesize reviews

Step 5: Doing a Review Report

Presenting "the application of corporate governance and competitive advantages of conventional and sharia SMEs".

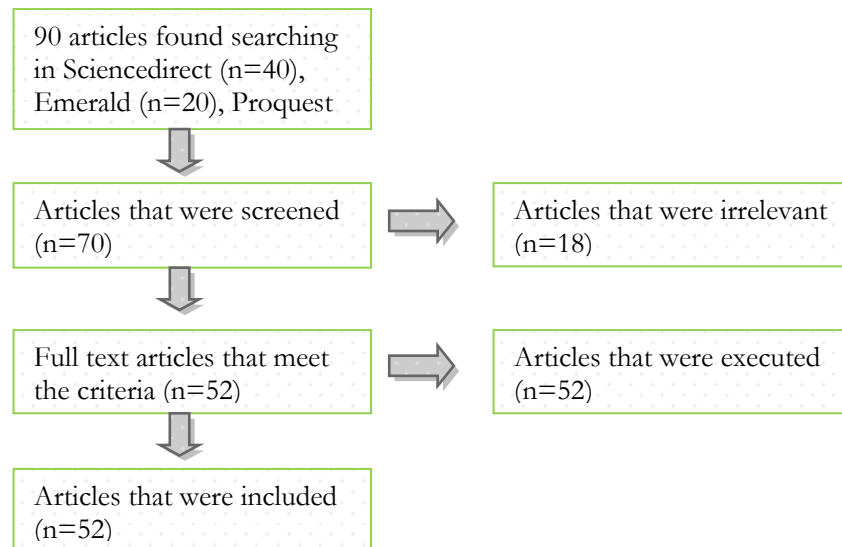


Figure 1. PRISM Flowchart

Based on these stages, the journal distribution used is as follows:

Table 1. Journal Distributions

No	Journal Publications	Total
1	Research in International Business and Finance	8
2	Heliyon	8
3	Global Finance Journal	7
4	Borsa Istanbul Review	6
5	Emerging Market Review	5
6	International Business Review	5
7	Pacific Basin Finance Journal	4
8	Journal Behavioral and Experimental Finance	4
9	Journal of Cleaner Production	4
10	European Economic Review	4
11	Journal of Corporate Finance	3
12	Emerging Markets Review	3
13	Journal of Business Research	3
14	Environmental Development	3
15	Data In Brief	3
16	Journal of Banking and Finance	3
17	Asian Journal of Shipping and Logistics	3
18	Critical Perspectives on Accounting	2
19	International Review of Economics and Finance	2
20	Review of Financial Economics	2
21	Journal of Cleaner Production	2
22	Energy Policy	2
23	Quartely Review of Economics and Finance	2
24	Transport Policy	1
25	Journal of International Accounting, Auditing	1

The majority of research locations are in developing countries such as South America, Brazil and Peru. Other locations are in Indonesia, Malaysia, Sri Lanka, the United States, Oman, United Arab Emirates, Brazil, Bangladesh and China.

The research method is dominated by quantitative in the form of financial data and questionnaires. Other methods are survey, qualitative, FGD, case studies, event studies and Systematic Literature Review. The majority of publications are in the range of 2019 to 2021. Although there were publications in 1999 and 2009 as a basis for answering questions in a systematic literature review.

Table 2. Keywords Used In This Systematic Review Using Boolean Strategy

No	Keyword(s)
1.	Islamic Corporate Governance
2.	Islamic Perspective
3.	Governance Framework
4.	Corporate Sustainability
5.	Firm Performance
6.	Religiosity
7.	Social And Governance (ESG) Performance
8.	Sustainable Development Goals
9.	Shariah Governance
10.	Stability, Governance Structure
11.	SMEs
12.	Management Systems
13.	Corporate Sustainability Performance
14.	Country-Level Governance
15.	Competitive Advantage

The motive for assessing the quality of research is to improve research and strengthen the conclusions outlined. The collection of evidence from the selected studies as well as the data obtained in were entered as quantitative and qualitative data. Furthermore, at the data extraction stage, research is carried out in collecting related research data in this case that can contribute. This is the use of Islamic perspective corporate governance and the competitive advantage of SMEs. The proposed model should have the ability to explore the application of Islamic perspective corporate governance and competitive advantage in SMEs.

Results and Discussion

This stage presents the results and discussion in a systematic literature review. The first step is to provide an overview of the stages of selection of the literature used. The second step is to describe the findings from the results of previous research reviews in accordance with the questions asked. The third step is the result of the research that will be presented. Then the fourth step, presents the limitations of a systematic literature review. And finally, provide conclusions, and future research.

This study describes the value of the Scimago Journal Rank (SJR) and Q (Q1-Q4) on the topic of Islamic corporate governance and the competitive advantage of SMEs. Journal publications will be assessed based on the SJR scores presented in the Table 3.

Abu-Tapanjeh (2009) explains that Islamic values have also instilled good corporate governance since the beginning of Islamization. Islamic society has its own views and values that are different from non-Islamic understandings. A strong belief in accountability in the world and beyond has strong implications in every Muslim's life and governs a wider scope and obligation to apply a broader range of corporate governance guidelines than conventional principles. Therefore success and well-being are measured by moral obligations and spiritual ethics with a strong belief in accountability with Allah, as the highest authority. It is clearly stated by Abu-Tapanjeh (2009) and supported by Jan et al. (2021) that there is a difference between conventional-based corporate

governance and Islamic values-based, conventional systems always have conflicting objectives to enrich stakeholders. Meanwhile, from an Islamic perspective, social welfare is the ultimate goal of every business, not maximizing the benefits of stakeholders (Chen & Yu, 2021).

Table 3. Journal Quality Level Of Selected Studies

No	Journal Publications	SJR	Category
1	Critical Perspectives On Accounting	2.04	Q1
2	Journal of Corporate Finance	1.89	Q1
3	International Review of Economics and Finance	0.78	Q2
4	Global Finance Journal	0.52	Q2
5	Emerging Markets Review	1.3	Q1
6	Research in International Business and Finance	0.77	Q1
7	Review of Financial Economics	0.35	Q3
8	Pacific Basin Finance Journal	0.77	Q2
9	Journal of Cleaner Production	1.94	Q1
10	Borsa Istanbul Review	0.68	Q2
11	Journal Behavioral and Experimental Finance	0.69	Q2
12	Heliyon	0.46	Q1
13	Journal of Business Research	2.05	Q1
14	Journal of Cleaner Production	1.94	Q1
15	Environmental Development	0.79	Q1
16	Emerging Market Review	1.3	Q1
17	Data In Brief	0.12	Q4
18	European Economic Review	1.91	Q1
19	Journal of Banking and Finance	1.58	Q1
20	International Business Review	1.77	Q1
21	Asian Journal of Shipping and Logistics	0.7	Q1
22	Energy Policy	2.09	Q1
23	Quartely Review of Economics and Finance	0.63	Q2
24	Transport Policy	1.69	Q1
25	Journal of International Accounting, Auditing	0.44	Q2

The difference of opinion basically has almost the same results and there are also several different results including that most researchers agree that the Good Corporate Governance model in Islam has different characteristics from the Anglo Saxon model and the Continental European model, because in Islam all aspects of life must sourced from a law called sharia (Fuenzalida et al., 2013). The principles of Good Corporate Governance that apply universally have been known in Islam since the birth of Islam and the revelation of the Qur'an. In general, universal principles and concepts which include fairness, transparency, accountability, responsibility are also found in the Shariah legal basis. However, because there are fundamental differences in the objectives of companies based on sharia with those of conventional companies, there will be differences as well as the mechanisms and tools needed in Good Corporate Governance (Imamah et al., 2019).

Differences in information and differences in interests between owners and managers encourage managers to act in personal interests and to the detriment of owners. Therefore, an employment contract needs to be made in the agency relationship between owner and manager to reduce manager conflicts that may occur (Yáñez-Araque et al., 2021). Thus, the focus of manager theory is in establishing the most efficient contract for the relationship between owner and manager to achieve the desired goals of the company or organization. In addition, the emergence of information discrepancies and conflicts of interest between owners and managers lead to inefficiency in the decision-making process (Abu-Tapanjeh, 2009). In the Islamic concept the legal form of a company or business contract is determined by how capital is obtained, how labor is employed, how various factors are valued, who takes the policy, how many companies or contracts are put together, and who bears the risk of failure. The goal of Islamic companies is to maximize profit and at the same time maximize happiness (al-falaah), benefits (maslahah) and

goodness (al-thayyibah) in an atmosphere full of brotherhood (al-ukhuwwah). Thus, the desired optimal benefit is still very far from what is expected (Jan et al., 2021).

In addition, one of the problems that arise is that there is no fundamental and mental readiness for SMEs actors, in fact most companies still manage their business conventionally and have not implemented good corporate governance guidelines. In general, good corporate governance practices make companies have better performance, the failure of small and medium enterprises is the result of weak corporate governance practices (Samantha, 2018). Corporate governance is indeed not a solution to all the problems faced by SMEs, but governance is an unquestionable thing to achieve business success (Jewalikar & Shelke, 2017). The issue of implementing good governance in SMEs is still a matter of debate. Previous research has been conducted in several countries. The debate is about how appropriate governance norms and rules are (Vásquez et al., 2021).

The urgency of building Sharia-based SMEs has a noble goal. First, as a form of obedience to run Islamic law. Second, build the nation's economic progress, considering the demand for world halal products is increasing every year. To develop it, Sharia-based SME governance is needed such as the application of guidelines or principles of corporate governance in its operations, SME business is guided by the principles of justice, namely profit sharing on the basis of real sales according to the contribution and risk of each party; partnership, which means the position of the consumer society, and producers are equal as business partners who need each other. Transparency, producers in setting prices based on the value of fairness and quality offered. Although the definition of the concept of corporate governance in the Islamic perspective is not much different from the conventional perspective, because it refers to a corporate system that is directed and controlled to fulfill corporate objectives by protecting the interests and rights of all stakeholders.

Furthermore, efforts to improve the business management of Sharia SMEs are urgently needed and the need to increase the capacity and capability of human resources for UKM actors or managers regarding the concept of Sharia in business. In addition, the role and support of Islamic banking and financial institutions is needed to provide easy access for SMEs in financing. For this contribution, it is very necessary to have a means of expanding the market and access to capital, Sharia-based SMEs are expected to establish relationships (networking) with various institutions, both private and government so that Sharia-based SMEs can develop and achieve competitive advantage and as a basis for building a solid halal industry construction.

The role of Small and Medium Enterprises (SMEs) is very important in economic development and growth, not only in developing countries such as Indonesia, but also in developed countries. SMEs have proven to play a very important role in overcoming the problem of unemployment and play a role in development and economic growth. However, the development of SMEs in the era of free trade and the pandemic crisis, for example, depends on competitiveness and increased efficiency and the strength of business networks with other institutions. Thus the problem that occurs is how the business governance of the Syariah system of SMEs is carried out. The purpose of SMEs business activities cannot be separated from the financial system because after all, the money market and the real market are interrelated and need each other. Transactions will occur both as customers and as those who need funds to develop SMEs businesses. The SMEs business is engaged in financing in each interest-free credit transaction, both in collecting public investment savings or in financing for the business world that needs it. Attention to SMEs is deemed inadequate, while the development of Sharia-based SMEs, in Islamic teachings is a teaching that is very concerned about the weak (Q.S Al-Hasyr: 7).

The development of Sharia-based SMEs should be the basis for building a solid halal industry construction. SMEs must be developed in order to create a prosperous society. However, whether the method and type of business taken in fulfilling the needs of life are in accordance with Islamic rules, that is the problem and must be a concern for business actors. Seeing these conditions, it encourages business people to manage their companies better. Business management that can ensure the implementation of the commitments that have been mutually agreed upon.

Implication and Conclusion

In the case of Indonesian research results, good governance in MSMEs is relatively new and still receives little attention. Research on the comparison of Islamic and conventional corporate governance perspectives has been carried out by previous research, such as Abu-Tapanjeh (2009); Tarazi and Abedifar (2020); Srairi (2019); Kok and Filomenies (2020); Safiullah (2021); Chen and Yu (2021); Fatmawati et al. (2020); Imamah et al. (2019); Hashim et al. (2015). Research related to the relationship between the application of Islamic perspective governance and business sustainability was carried out by Jan et al. (2021), Islamic banking governance (Srairi, 2019; Erragragui & Revelli, 2016), the application of Islamic perspective governance in the Capital Market (Imamah et al., 2019; Alzahrani, 2019; Anwer et al., 2021).

Research on the application of corporate governance for developing countries has also been carried out by several previous studies such as Almaskati et al. (2020); Cumming et al. (2021); Oehmichen (2018); Ballester et al. (2020); Correa-Garcia et al. (2020); Haslam et al. (2019); Esqueda and O'Connor (2020); Tjahjadi et al. (2021); Tsafack and Guo (2021), and development of corporate governance theory (Ararat et al., 2021; Ahmadi et al., 2019). Based on the topic studied by previous research, the object of research is banking, capital market. However, the phenomenon that occurs in Indonesia is that the problem that occurs is how the business governance of the Syariah system of SMEs is carried out. Research related to SMEs development is limited to business development strategies and the application of ethical values, such as the results of research conducted by Yáñez-Araque et al. (2021) and the topic in SMEs business sustainability (Vásquez et al., 2021; Samantha, 2018).

The research findings indicate that Islamic Corporate Governance research can be categorized into subfields, such as research on the basics of Islamic corporate governance, analysis on Islamic corporate governance and research on various applications of Islamic corporate governance in Islamic finance. Although there is some important or fundamental research in Islamic corporate governance, this does not yet answer for such a powerful Islamic financial instrument. This study relies on research in the existing Islamic corporate governance literature and future research.

The results of the researchers also show different research results so that research on gaps will be carried out to fill the gap by integrating the pattern of comparison of the level of competitive advantage of conventional and sharia SMEs: the application of corporate governance. This study conducted a literature review on relevant research topics related to Islamic Governance and the Competitive Advantage of SMEs. The research approach uses a Systematic Literature Review by reviewing 52 articles from the screening results. There may still be some articles that can be used in the systematic literature review process. The limitations of this study may be articles that have not been accessed by researchers. So that further research can add keywords in further research to be able to provide better results.

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