Integrating Good Corporate Governance, Islamic Corporate Social Responsibility, Zakat, Syariah Governance, and Syariah Compliance: Exploring their Interconnected Impact on the Financial Health of Islamic Commercial Banks

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Abstract. The background of this research revolves around the need to understand the complex relationship between Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), zakat, Sharia Governance (SG), and Sharia Compliance (SC) in the context of financial institutions, particularly Islamic banks. This study adopts a holistic framework to explore their interconnected impacts on the financial health of Islamic banks. The research utilized a comprehensive literature review with qualitative analysis, aiming to gain a thorough understanding of the subject from 2010 to 2023. The findings indicate that in the face of business complexity and global market dynamics, Islamic banks need to implement concepts such as Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), Zakat, Sharia Governance (SG), and Sharia Compliance (SC). The holistic integration of these principles can have a significantly positive impact on the financial health of Islamic banks. GCG provides a robust foundation for risk management and transparency, ICSR enriches the social and environmental dimensions, Zakat plays a crucial role in wealth redistribution and community economic empowerment, while SG and SC ensure adherence to Shariah principles and maintain the integrity of financial institutions. By effectively applying these concepts, Islamic banks can strengthen their position in facing market challenges and enhance their contributions to sustainable economic development.

Keywords: Good Corporate Governance, Islamic Corporate Social Responsibility, Zakat, Syariah Governance, Syariah Compliance

1. Introduction

This research is motivated by the imperative to unravel and comprehensively understand the intricate relationship between Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), zakat, Sharia Governance, and Sharia Compliance within the realm of financial institutions, with a particular emphasis on Islamic banks. In its pursuit of delineating a comprehensive framework, this research not only delves into each element individually but also explores their interactions and potential impacts on one another. Consequently, this study aims not only to discern the implications of GCG and ICSR on Islamic banks but also to illuminate how zakat, Islamic governance, and Islamic compliance can mutually influence each other, shaping the overall financial well-being of Islamic banks. This holistic approach is anticipated to yield richer and more nuanced insights into the intricate dynamics inherent in Islamic financial institutions.

The significance of Good Corporate Governance (GCG) within the context of Islamic banking cannot be overstated. GCG, with its multifaceted dimensions, is not merely a requirement but serves as a foundational pillar that establishes an environment where decisions are made with the interests of all stakeholders in mind [1]. By advocating values of transparency, accountability, and liability, GCG not only underscores corporate responsibility but also lays the groundwork for a robust operational ethic. In the context of Islamic banking,
where Sharia principles form the bedrock of operations, effective integration of GCG is not only imperative but can be viewed as the key to cultivating and fortifying public and investor trust. A comprehensive implementation of GCG across all aspects of an Islamic bank's operations will provide a solid foundation for sustainable growth, deliver added value to all stakeholders, and overall bolster the integrity and sustainability of Islamic financial institutions [2].

Concurrently, Islamic Corporate Social Responsibility (ICSR) has emerged as a paradigm emphasizing the moral and ethical aspects of corporate social responsibility in the context of Sharia [3]. The implementation of ICSR in Islamic banks is not solely a moral obligation but also a crucial foundation for enhancing the bank's image as an institution dedicated to both financial profit and active societal improvement. By aligning with Sharia principles to fulfill social responsibilities, Islamic banks can play a proactive role in fostering sustainable development and generating positive impacts on the communities they serve [4]. Consequently, the incorporation of ICSR within Islamic banking is not merely a strategic innovation but an essential step in reinforcing the positive relationship between banks and their communities.

Zakat, when conceptualized as the amil zakat within the context of Islamic banking, not only introduces a philanthropic dimension but also instills principles of social justice into every facet of banking activities [5]. Beyond being a process of fund collection and distribution, zakat within the scope of Islamic banking establishes a welfare network requiring active participation from all stakeholders. Through efficient management of amil zakat, Islamic banks can make a substantial positive contribution to enhancing community welfare. A holistic and sustainable approach to zakat distribution can yield multiplicative impacts on both the social and financial aspects of the bank, positioning zakat not only as a religious obligation but also as a strategic instrument for creating a harmonious balance between financial considerations and social responsibility. This strengthens the position of Islamic banks as potent agents of change in promoting social and economic sustainability.

Sharia Governance and Sharia Compliance hold profound significance as they not only define the operational framework but also ensure that all activities of the bank align with the fundamental principles of Sharia. Sharia Governance, focused on establishing and implementing policies and procedures in accordance with Sharia principles, lays the groundwork for effective risk management and responsible decision-making. Simultaneously, Sharia Compliance enforces adherence to Sharia norms and rules, providing assurance that all bank operations align with Islamic moral and ethical principles [6]. Operational sustainability consistent with Sharia principles fosters high trust among stakeholders and provides a robust foundation for the bank's long-term growth [7]. Within this framework, the synergistic integration of Sharia Governance and Sharia Compliance is pivotal in shaping financial institutions that not only perform optimally but also have a positive impact in supporting social values and economic sustainability.

This research aspires to bridge the existing knowledge gap by adopting a holistic approach that thoroughly investigates the interconnections between Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), zakat, Sharia Governance, and Sharia Compliance in the context of Islamic banks. Through an in-depth analysis of the complex interrelationships between these elements, this research seeks to unveil the dynamic relationships that may exist among them and the extent to which their respective contributions can shape and influence the financial health of Islamic banks. By scrutinizing these various dimensions, this research aims to provide a deeper understanding of the complex dynamics within Islamic-based financial institutions, thereby offering valuable insights on how to optimally manage these factors to improve the long-term health and sustainability of Islamic banks.

**1.1 Good Corporate Governance (GCG)**

Good Corporate Governance (GCG) refers to a set of principles, policies, and practices that promote transparency, accountability, fairness, and the protection of the rights of shareholders and other stakeholders in the management of a company [8]. GCG aims to create an environment where strategic decisions are made considering the interests of all relevant parties, including shareholders, employees, creditors, and the broader community [9]. In practice, GCG involves the implementation of an efficient organizational structure, transparent decision-making processes, and sustainable risk management. GCG principles not only focus on compliance with applicable regulations and laws but also on high ethical standards in conducting business. By adopting GCG, companies are expected to enhance their operational performance, minimize conflicts of interest, and instill confidence in stakeholders that the company is managed professionally and responsibly.

**1.2 Islamic Corporate Social Responsibility (ICSR)**

Islamic Corporate Social Responsibility (ICSR) refers to the concept of corporate social responsibility within the framework of Islamic principles and values [10]. ICSR emphasizes the obligation of a company to
contribute to the welfare of society in a manner consistent with Islamic teachings [11]. This includes economic empowerment, environmental protection, social justice, and support for charitable activities in line with Sharia principles. In practice, companies implementing ICSR will consider the social and environmental impact of their business activities, respect the rights of workers, and ensure that Islamic ethical principles are integrated into all operational aspects. By adopting ICSR, companies are expected to not only achieve financial goals but also actively contribute to building a sustainable and just society in accordance with Islamic values. ICSR reflects a company's commitment to sustainability and social well-being, aligning with ethical principles recognized in the Islamic perspective.

1.3 Zakat

Zakat is an obligation in Islam that requires Muslims to give a small portion of their wealth as a form of contribution to those in need [12]. The term "zakat" comes from the Arabic word meaning "to grow" or "to purify," reflecting the purpose of zakat to cleanse one's possessions from the traits of selfishness and to enhance blessings in life. The amount of zakat that Muslims are typically required to give is 2.5% of their wealth, and these funds are designated for eight categories of zakat recipients, such as the poor, orphans, and those burdened by debt. Zakat serves not only as a duty but also as a means to foster social solidarity within the Muslim community, reduce economic disparities, and establish balance and justice in the distribution of wealth.

1.4 Shariah Governance

Shariah Governance refers to a set of structures, policies, and management processes designed to ensure that the operational activities of an entity, particularly in the context of Islamic banking, comply with Shariah principles [13]. In an Islamic financial institution, Shariah Governance includes effective oversight and control mechanisms to ensure that business decisions, products, and services provided align fully with the principles of Islamic law. This involves the establishment of an independent Shariah Supervisory Board (SSB) responsible for assessing and monitoring operational compliance with Shariah principles. Additionally, Shariah Governance includes the implementation of internal control systems, reporting, and ongoing monitoring to ensure that every aspect of Islamic banking activities stays within the framework of Shariah law and ethics [14]. Thus, Shariah Governance is not only about compliance with regulations but also involves continuous management to ensure integrity, sustainability, and trust in Islamic banking practices.

1.5 Shariah Compliance

Shariah Compliance refers to the alignment of an activity, product, or institution with the principles of Islamic law or Shariah [15]. In the context of finance and banking, Shariah Compliance involves adherence to Islamic ethical guidelines in financial transactions, investments, and corporate operations. Financial institutions that adhere to these principles must ensure that all products and services they offer are in line with Islamic values, including prohibitions on usury (interest), excessive speculation, and investments in businesses deemed unethical under Shariah law. In the pursuit of Shariah compliance, financial institutions often involve a Shariah advisory board that provides guidance and oversight on transactions and company policies. Thus, the concept of Shariah Compliance not only encompasses regulatory aspects but also reflects a commitment to conduct business activities with integrity and morality in accordance with Islamic teachings [16].

2. Method

In this inquiry, we adopt a qualitative literature review methodology to thoroughly investigate the interconnected impact of Integrating Good Corporate Governance, Islamic Corporate Social Responsibility, Zakat, Syariah Governance, and Syariah Compliance on the financial health of Islamic commercial banks. The study spans the critical period from 2010 to 2023. This method is chosen to examine existing scholarly works across diverse academic journals, conference papers, and reputable sources accessible through Google Scholar. The goal is to offer a nuanced understanding of the subject matter. To guide our exploration, we established explicit search criteria that encompass keywords related to Good Corporate Governance, Islamic Corporate Social Responsibility, Zakat, Syariah Governance, and Syariah Compliance. The sources included in the review are evaluated based on their relevance to the research objectives and alignment with specified criteria. Any limitations, such as language constraints or publication biases, are transparently communicated.

The research process unfolds in several stages. Initially, the researcher defines a specific and relevant research topic, establishing a comprehensive understanding of the background and research objectives. Subsequently, explicit and precise search criteria are formulated to guide the exploration of literature using
Google Scholar, covering the timeframe from 2010 to 2023. Upon obtaining search results, the researcher engages in a literature selection process, scrutinizing the abstracts and summaries of each identified article or source. Literature lacking relevance or failing to meet the research criteria is excluded from the analysis. The selected literature undergoes a rigorous examination, focusing on identifying significant discoveries, concepts, theories, and trends inherent in the literature.

A qualitative approach is applied to achieve a comprehensive understanding of the research subject. The findings from the literature review are then synthesized and elaborated upon by the researcher to construct a comprehensive understanding of the research topic. Furthermore, these findings are organized into a detailed research report with a structured and cohesive format, encompassing key discoveries, analyses, and profound interpretations. This methodology empowers researchers to acquire an extensive and profound understanding of the research topic without the necessity for primary data collection. By leveraging existing literature, this research has the potential to make substantial contributions to advancing theories, problem-solving, or decision-making across various scientific domains, particularly within the context of Integrating Good Corporate Governance, Islamic Corporate Social Responsibility, Zakat, Syariah Governance, and Syariah Compliance: Exploring their Interconnected Impact on the Financial Health of Islamic Commercial Banks. The methodology section is structured to provide a clear and coherent explanation of each stage of the research process. Subsections enhance readability, ensuring a transparent and robust approach to the study.

3. Result and Discussion

In the face of increasingly complex globalisation, the financial sector, particularly Islamic commercial banks, is faced with increasing challenges. The growing complexity of business and the pressure to conduct business ethically and sustainably have led to greater demands [17]. Therefore, the phenomena of Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), Zakat, Shari'ah Governance (SG), and Shari'ah Compliance (SC) have become the main focus in an effort to understand and improve the health of Islamic commercial banks. This challenge raises the need for a holistic approach that can investigate the interconnection and joint impact of these factors. In this context, research and implementation of best practices in GCG, ICSR, Zakat, SG, and SC are crucial to establish a strong operational foundation, support sustainable business integrity, and enhance the positive contribution of Islamic commercial banks to society and the economy as a whole.

Firstly, the role of Good Corporate Governance (GCG) has become a critical foundation in guiding the management of Islamic commercial banks towards healthy sustainability. The principles of GCG, which focus on transparency, accountability, fairness and corporate social responsibility, provide a strong basis for the bank's operational policies and practices [18]. In the context of Islamic commercial banks, GCG implementation is not only an obligation, but also a necessity to prudently manage risks, ensure the integrity of financial institutions, and build investor and customer confidence. In addition, GCG also plays a key role in shaping a quality organisational culture, where ethical values and sharia principles are consistently maintained [19]. Therefore, GCG is not only a formal framework, but also a vital foothold to increase the resilience of Islamic commercial banks in facing the complex dynamics of financial markets and enhance their credibility in the eyes of all stakeholders.

Meanwhile, Islamic Corporate Social Responsibility (ICSR) is not only an additional aspect, but also the main pillar that strengthens the social dimension in the operations of Islamic commercial banks. By emphasising the concept of sustainability that involves justice, community welfare, and environmental preservation, ICSR becomes a strategic foundation that directs Islamic commercial banks to play an active role in building positive impacts beyond the financial realm [20]. Islamic commercial banks involved in ICSR activities are not only responsible to shareholders, but also to all stakeholders, involving the community at large and considering the impact on the surrounding environment. Thus, Islamic commercial banks are not only measured by their financial performance, but also by their contribution to social welfare, adding substantial value to the communities in which they operate. By making ICSR an integral commitment, Islamic commercial banks can become agents of change that promote social and environmental values, deliver long-term positive impacts, and build mutually beneficial relationships with all stakeholders.

Zakat, as one of the important pillars of Islamic economics, goes beyond its role as a formal aspect and emerges as a key role in the context of Islamic commercial banks. The implementation of zakat in the operations of Islamic commercial banks does not merely follow the principles of Islamic finance, but also forms the foundation for broader economic and social transformation [21]. Zakat is not only a religious obligation, but also a strategic instrument in achieving economic and social sustainability. Through a structured wealth
The holistic combination of Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), zakat, Shariah Governance (SG), and Shariah Compliance (SC) is not just a collection of factors, but an integral framework that can contribute significantly to the health and sustainability of Islamic commercial banks. GCG, with its principles that emphasise transparency, accountability and fairness, forms the basis for a responsive and responsible decision-making structure [24]. In addition, ICSR brings a social dimension that engages Islamic commercial banks in a series of responsibilities towards community welfare and environmental preservation. Meanwhile, zakat serves as an economic and social instrument that promotes equitable distribution of wealth and empowers the community's economy [25]. Relatedly, the SG and SC, as custodians of sharia principles, ensure that all aspects of the operations and products of Islamic commercial banks are in accordance with the applicable sharia provisions. Through the synergy of all these factors, Islamic commercial banks can build a solid reputation, win the trust of the public, and achieve sustainable growth, which not only includes the financial dimension but also reflects its positive contribution to social and environmental justice. Thus, the holistic integration of GCG, ICSR, zakat, SG, and SC is the key to establishing an Islamic-based financial institution that is resilient, meaningful, and sustainable in the face of the complex dynamics of the banking world.

Thus, the holistic integration of Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), zakat, Shariah Governance (SG), and Shariah Compliance (SC) is not only considered as an ethical obligation, but also a smart business strategy in maintaining the health and sustainability of Islamic commercial banks amidst the evolving global market dynamics. Successful implementation of this framework will not only create a positive impact on the bank's financial performance, but will also strengthen the bank's contribution to sustainable and inclusive economic development in the context of a sharia-based economy. GCG, with its principles that emphasise ethical and efficient management, provides the basis for sustainable decision-making and corporate social responsibility. ICSR, as the bank's form of social engagement, provides an additional dimension that shapes the bank's reputation as an agent of positive change in society. Meanwhile, zakat, with its role in equitable wealth distribution, opens the door for wider economic inclusion. SG and SC, as custodians of sharia principles, make Islamic commercial banks pioneers in conducting business in accordance with Islamic values. Hence, this integration creates a solid foundation, which goes beyond ethical aspects and reaches strategic dimensions in facing the complexity of global market challenges, encouraging Islamic commercial banks to be positive leaders in the formation of a sustainable and inclusive economy.

4. Conclusion

In facing the dynamics of the global market and increasing business complexity, Islamic commercial banks need to earnestly comprehend and implement concepts such as Good Corporate Governance (GCG), Islamic Corporate Social Responsibility (ICSR), Zakat, Shariah Governance (SG), and Shariah Compliance (SC). The holistic integration of these principles can have a significantly positive impact on the overall health of Islamic commercial banks. GCG establishes a strong foundation for effective risk management, ensuring transparency, and building public trust. ICSR enriches the social and environmental dimensions of a bank's operations, creating positive impacts and strengthening engagement with the community. Zakat, as a form of social and
economic contribution in Islam, can serve as a crucial instrument in wealth redistribution and empowering the community economically. Meanwhile, Shariah Governance (SG) and Shariah Compliance (SC) ensure adherence to Shariah principles, safeguard the integrity of financial institutions, and instill confidence in stakeholders.

To bolster the financial health of Islamic commercial banks, it is recommended to continually enhance the implementation of Good Corporate Governance (GCG) principles, focusing on transparency, accountability, and fairness in managing financial institutions. Additionally, there is a need for the expansion and intensification of Islamic Corporate Social Responsibility (ICSR) programs to have a greater positive impact on society and the environment, improve the company's image, and strengthen engagement with customers. The optimization of the role of zakat can be a strategic instrument in the business model of Islamic commercial banks, with effective and transparent distribution to alleviate poverty and empower the community economically. The strengthening of Shariah Governance (SG) and Shariah Compliance (SC) structures should be pursued continuously, involving the enhancement of internal capacities, engagement of Shariah experts, and updates in line with regulatory developments. Meanwhile, Islamic commercial banks need to play an active role in increasing public education and awareness regarding Shariah principles and the benefits of participating in such banks, with the hope of opening new opportunities and expanding the customer base. Through these measures, Islamic commercial banks can not only achieve strong financial health but also make a significant contribution to sustainable and inclusive economic development in line with the values of Islamic economics.

References


