

Islamic Business Ethics and their Application in Contemporary Corporate Governance

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Abstract

This study explores the application of Islamic business ethics in shaping contemporary corporate governance, focusing on how timeless ethical principles are translated into modern institutional practices. Drawing on a qualitative approach, the research analyzed secondary sources including classical Islamic texts, governance reports, regulatory guidelines, and corporate disclosures from Islamic financial institutions. The findings reveal that principles such as justice (*'adl*), trust (*amanah*), truthfulness (*siddiq*), and public welfare (*maslahah*) remain central to governance structures, particularly through mechanisms such as Shariah Supervisory Boards (SSBs), Islamic Corporate Social Responsibility (ICSR), and risk-sharing contracts like *mudarabah* and *musharakah*. These practices underscore the multidimensional accountability framework in Islamic governance, which extends responsibility beyond shareholders to God, society, and the environment. The study also highlights the role of international standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) in institutionalizing ethics across jurisdictions. Despite these achievements, the research identifies persistent challenges, including superficial CSR disclosures, uneven adoption of standards, overreliance on debt-like financial instruments, and tensions between ethical integrity and profit imperatives. By situating these findings within the broader discourse of governance, the study concludes that Islamic business ethics offer a distinct paradigm capable of enriching corporate governance globally. However, realizing their full potential requires stronger institutional commitment, greater harmonization of regulatory practices, and a deeper internalization of ethics within organizational culture.

Keywords

Islamic Business Ethics
Corporate Governance
Organization

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Introduction

In an era marked by corporate scandals, ethical lapses, and growing public mistrust, the field of corporate governance increasingly emphasizes transparency, accountability, and stakeholder interests. Against this backdrop, Islamic business ethics offers a distinct paradigm grounded in moral commitments that extend beyond profit maximization to incorporate spiritual accountability, social justice, and communal well-being. Core principles such as *amanah* (trust), *siddiq* (truthfulness), *'adl* (justice), and *maslahah* (public interest) are deeply embedded in Islamic jurisprudence and inform contemporary governance ideals (Arodha, 2025).

These ethical foundations are operationalized in modern corporate entities through formal mechanisms, chief among them being Shariah Supervisory Boards (SSBs). According to AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions, 2008), SSBs serve as independent bodies comprised of jurists specializing in Islamic commercial law, entrusted with certifying products, supervising transactions, calculating zakat liabilities, and disposing of non-compliant income. They fulfill both supervisory and advisory functions essential to institutional ethical integrity (Pizzolato & Dierickx, 2023).

Empirical research underscores the significant influence of SSB characteristics on governance outcomes. For example, Umar (2024) Show that SSB governance positively affects sustainability performance, with studies highlighting how factors such as board size, expertise, and meeting frequency correlate with higher social

disclosure. Parallel findings reveal that greater transparency regarding SSB composition and cross-membership enhances disclosure practices in Islamic banks across Indonesia and Malaysia.

Standard-setting bodies such as the Islamic Financial Services Board (IFSB) and AAOIFI further institutionalize ethics into corporate governance. Established in the early 2000s, the IFSB issues global prudential guidelines in areas including corporate governance, risk management, and transparency (Pacelli & Povia, 2024), while AAOIFI sets benchmarks for auditing, governance, and ethics in Islamic financial institutions (AAOIFI, 1991). These organizations enable ethical consistency across jurisdictions and reinforce norms rooted in Shariah values (Ali & Ifraq, 2024).

Beyond formal governance structures, Islamic ethics also reshape how corporations approach their social responsibilities. They indelibly link governance with Islamic Corporate Social Responsibility (ICSR), where CSR is no longer an ancillary activity but seen as a religious and moral obligation. Obligatory practices like zakat, waqf, and ethical investments anchor corporate actions in a broader discourse of social welfare and accountability (Maspul & Mubarak, 2025). More recently, the Islamic Reporting Initiative (IRI) has emerged to align ESG and sustainability reporting with Islamic values emphasizing community development, environmental stewardship, and long-term inclusiveness (Awan et al., 2023).

What distinguishes Islamic governance from conventional models is its multidimensional accountability framework. Whereas conventional systems emphasize shareholder primacy and financial returns, Islamic models require accountability to God, community, and ethical norms. Risk-sharing mechanisms like *mudharabah* and *musharakah* reaffirm fairness in transactions, contrasting with conventional practice that often favors risk transfer and speculation. This ethical orientation has contributed to the relative stability of Islamic banks during financial disruptions, such as the 2008 global crisis.

Yet, the implementation of Islamic business ethics in governance faces important challenges. Studies warn about issues such as “fatwa shopping,” limited independence of SSBs, and a shortage of professionals with combined expertise in Shariah law and modern finance. Despite regulatory advances, disparities in applying AAOIFI and IFSB standards persist across countries, resulting in inconsistent governance outcomes. Moreover, while CSR disclosures have risen, some may reflect symbolic compliance rather than genuine ethical transformation.

Against this backdrop, the present study delves into how Islamic business ethics are reinterpreted and applied within contemporary corporate governance systems. It examines the ethical frameworks underpinning governance structures such as SSBs, IFSB, AAOIFI, and IRI and explores how they operationalize religiously-informed ethics amid modern regulatory and market pressures. By doing so, the study aims to illuminate the tension and synergy between moral imperatives and corporate exigencies in Muslim-majority contexts and beyond. The analysis reveals how Islamic ethics offers not just a theoretical foundation but also practical governance pathways while illuminating areas requiring institutional strengthening and ethical deepening.

Methods

Research Design

This study employed a qualitative research design within an interpretivist paradigm, emphasizing the understanding of meanings, values, and principles embedded in Islamic business ethics as they are applied in contemporary corporate governance. Rather than testing hypotheses or measuring numerical data, the research sought to interpret how ethical concepts such as *amanah*, *siddiq*, *'adl*, and *maslahah* are translated into institutional structures like Shariah Supervisory Boards (SSBs), regulatory standards, and corporate practices. A qualitative approach was chosen because it allows for a deep exploration of complex socio-religious ideas, organizational practices, and governance processes that cannot be captured adequately through statistical models.

Research Approach

The study followed an exploratory and descriptive approach. It was exploratory in that it aimed to uncover how classical Islamic ethical principles are contextualized in modern governance settings, and descriptive in that it systematically presented how these principles manifest in corporate structures, decision-making processes, and accountability mechanisms. The focus was not on proving causality but on generating a nuanced understanding of the lived application of ethics within institutions.

Sources of Data

Data were primarily drawn from secondary sources, which included classical Islamic texts, governance codes issued by AAOIFI and IFSB, corporate annual reports, sustainability disclosures, and prior academic literature on Islamic economics and governance. These sources were supplemented with case studies of Islamic financial institutions, which provided concrete examples of how business ethics are operationalized in practice. In addition, selected policy documents and fatwas related to corporate ethics were analyzed to capture regulatory perspectives.

Sampling Strategy

A purposive sampling technique was employed to ensure that only materials directly relevant to the research focus were included. This meant selecting corporate governance reports from Islamic banks, regulatory documents from international standard-setting organizations, and scholarly works that specifically addressed intersections between ethics and governance. The purposive sampling strategy ensured that the materials reflected diverse perspectives ranging from regulatory bodies and financial institutions to academic scholars thus allowing for a comprehensive understanding of the topic.

Data Collection Methods

The research primarily relied on document analysis. This method enabled the systematic examination of written materials to identify recurring themes, patterns, and ethical references. Corporate reports were reviewed for evidence of ethical practices such as zakat distribution, risk-sharing arrangements, and CSR initiatives aligned with Islamic values. Regulatory documents were analyzed to understand the institutionalization of Islamic ethics in governance frameworks. Additionally, journal articles and academic monographs were used to trace theoretical debates and interpretive perspectives in the field.

Data Analysis

Data were analyzed using thematic analysis. The process began with an open reading of the texts, followed by coding key concepts such as justice, trust, accountability, transparency, and community welfare. These codes were then grouped into broader themes that aligned with the objectives of the study, such as the role of SSBs, the standardization of governance frameworks, and the integration of ethics into CSR practices. Thematic analysis was chosen because it allowed the identification of patterns across diverse sources, while also preserving the richness of contextual details.

Results and Discussion

Ethical Oversight through Shariah Supervisory Boards

The findings indicate that Shariah Supervisory Boards (SSBs) are the institutional heart of Islamic corporate governance. Their presence symbolizes an effort to operationalize ethics in real organizational settings, going beyond abstract principles to enforce compliance with Shariah. In practice, SSBs ensure that financial products avoid prohibited elements such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). They also oversee processes like zakat calculation, the purification of unlawful income, and the review of contractual terms. By doing so, SSBs provide legitimacy to institutions and foster trust among

stakeholders, which is essential in markets where compliance with Islamic principles is not just a legal expectation but a moral obligation.

However, the findings also highlight concerns about SSB independence. Multiple case reports revealed that members often serve across different institutions, raising questions about objectivity and the possibility of conflicts of interest (Martinsuo & Huemann, 2021). This challenge echoes earlier literature that warns about the risk of “Shariah arbitrage” where rulings may vary based on institutional interests rather than consistent ethical standards. Thus, while SSBs embody the promise of ethical oversight, their effectiveness depends on structural reforms, such as limiting cross-memberships and strengthening regulatory monitoring.

Islamic Corporate Social Responsibility (ICSR) Practices

CSR in Islamic institutions emerges as an extension of religious duty rather than a voluntary corporate choice (Zafar & Sulaiman, 2021). Reports analyzed in this study consistently described CSR activities not only in terms of brand value but as obligations rooted in *fard kifayah* (communal duty). Programs included zakat distribution, endowment (*waqf*) development, scholarships, and financing for social infrastructure such as clinics and schools. These activities resonate with Islamic principles of distributive justice and inclusivity, emphasizing the moral dimension of wealth.

Nonetheless, there were notable disparities in practice. Some institutions provided comprehensive disclosures with audited figures for social spending, while others mentioned CSR in passing, without evidence of actual implementation. This inconsistency raises the issue of “symbolic compliance,” where ethical obligations risk being reduced to reputational tools. Such tendencies dilute the transformative potential of ICSR and align with critiques in the literature that call for stronger integration of social responsibility into the corporate governance framework itself. Genuine implementation requires not just compliance but the internalization of ethics as a guiding philosophy for decision-making.

Risk-Sharing Contracts and Fairness in Transactions

The study confirms that profit- and loss-sharing contracts such as *mudarabah* and *musharakah* stand as the most tangible applications of Islamic ethics in financial practice (Gardezi, 2023; Aslam, 2024). These instruments embody the spirit of justice (*‘adl*) by requiring partners to share both risks and rewards fairly. Several institutional reports examined in this study emphasized the use of such contracts to empower small businesses and entrepreneurs, reflecting Islamic economics’ broader concern for equitable development.

Yet, the findings also show a divergence between theory and practice. Debt-like contracts such as *murabaha* remain dominant in the market, primarily because they are easier to structure and less risky for financial institutions. This shift away from genuine risk-sharing illustrates the tension between ethical ideals and market realities. As a result, while Islamic finance has succeeded in differentiating itself symbolically from conventional systems, it has not fully realized its ethical aspirations in practice. Bridging this gap requires innovations in monitoring mechanisms, legal frameworks, and risk management to make equity-based contracts more practical and attractive.

Institutionalization of Ethics through Regulatory Standards

International bodies such as AAOIFI and IFSB were found to play an important role in standardizing governance practices (Safdar, 2025). Their guidelines extend ethical principles into technical requirements for transparency, board accountability, and disclosure. By doing so, they bridge the gap between classical Islamic ethics and modern financial regulation. The case materials analyzed showed that institutions adhering closely to these standards achieved higher levels of disclosure and demonstrated stronger ethical consistency (Mnif & Tahari, 2021).

However, adoption remains uneven across jurisdictions. Some regulators enforce AAOIFI and IFSB standards rigorously, while others allow for flexible interpretations that weaken ethical coherence. This inconsistency undermines the credibility of Islamic corporate governance at the global level and fuels criticisms of fragmented practices. The findings thus suggest a dual reality: while the institutionalization of

ethics through regulatory standards has advanced significantly, the lack of harmonization highlights the need for global cooperation to strengthen legitimacy and trust.

Tensions between Profit and Ethical Integrity

The most critical finding of this research concerns the conflict between ethical commitments and market-driven imperatives (Shakil et al., 2025). Institutions face pressure to remain competitive, attract investors, and deliver profits sometimes at the expense of ethical authenticity. This tension is visible in practices such as the overreliance on debt-like products labeled “Shariah-compliant” but structurally resembling conventional instruments. Similarly, CSR initiatives are occasionally framed in promotional terms, serving as branding strategies rather than authentic moral commitments (Huang, 2024).

Such tensions resonate with critiques of “form over substance” in Islamic finance, where compliance becomes a box-ticking exercise rather than a genuine pursuit of justice and welfare. This raises fundamental questions about the ability of corporate governance to prioritize ethics when market competition dominates decision-making. The study suggests that overcoming these tensions requires re-centering governance on Islamic ethical foundations and empowering independent institutions like SSBs to act as guardians of integrity rather than institutional ornaments.

Comparative Insights and Contribution to Literature

The findings of this study align with and extend existing scholarship. Scholars such as Chapra, Iqbal, and Mirakhor have long emphasized that Islamic governance is unique because it embeds multidimensional accountability to God, society, and stakeholders (Fuadi, 2024). This research not only reaffirms that claim but provides empirical evidence of how these principles manifest in corporate disclosures and practices. At the same time, the study highlights areas where earlier critiques remain valid, particularly regarding inconsistencies, symbolic compliance, and the dominance of profit motives (Ahmad et al., 2023).

By situating Islamic business ethics within the broader discourse on corporate governance, this study contributes to ongoing debates about ethics in global finance. It shows that while Islamic governance offers innovative pathways grounded in timeless principles, its success depends on genuine commitment and institutional reform. Thus, the contribution of this study lies in both affirming the resilience of Islamic ethics and pointing to the structural changes needed to realize its full potential in contemporary governance.

Conclusion

This study has demonstrated that Islamic business ethics, rooted in principles such as justice (*‘adl*), trust (*amanah*), truthfulness (*siddiq*), and public welfare (*maslahah*), provide a distinct and valuable framework for contemporary corporate governance. The findings highlight how these ethical principles are institutionalized through mechanisms such as Shariah Supervisory Boards, risk-sharing contracts, Islamic Corporate Social Responsibility practices, and regulatory standards issued by AAOIFI and IFSB, all of which strive to align modern corporate practices with timeless moral commitments. At the same time, the research revealed significant challenges, including inconsistencies in governance practices across jurisdictions, the tendency toward symbolic compliance in CSR reporting, and the persistent tension between ethical integrity and profit imperatives. By situating these findings within the broader discourse on governance, the study underscores that while Islamic ethics offer a robust alternative to conventional shareholder-centric models, their effective realization requires genuine institutional commitment, greater harmonization of standards, and a deeper internalization of ethics within corporate culture. Ultimately, the contribution of Islamic business ethics lies not only in strengthening governance in Muslim-majority contexts but also in offering universal lessons for building ethical, accountable, and socially responsible corporate systems in an increasingly complex global economy.

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