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THE ROLE OF GOOD CORPORATE GOVERNANCE IN ENCOURAGING COMPLIANCE IN SHARIA-BASED COMPANIES: A SYSTEMATIC LITERATURE REVIEW

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Abstract: This study explores the relationship between Good Corporate Governance (GCG) and Shariah compliance in Shariah-based companies through a Systematic Literature Review (SLR) approach. Data were retrieved from five major datasets with relevant articles, which were filtered by publication year (2010-2023) using PRISMA protocol. The analysis identified three main dimensions of GCG in Islamic companies: the role of the Shariah Supervisory Board (DPS), Islamic financial transparency and reporting, and board independence. Key indicators of Shariah compliance include adherence to international standards (AAOIFI and IFSB), as well as the elimination of riba and gharar elements in the company's operations. The study also highlights best practices from Islamic companies, such as Bank Islam Malaysia Berhad (BIMB) and Dubai Islamic Bank (DIB), which demonstrate the integration of modern governance with the principles of Islamic law. In addition, the study notes the challenges faced, especially in countries with dualistic legal systems. The theoretical implications of this research include the development of a relationship model of GCG and sharia compliance, while the practical implications offer recommendations to corporate managers and regulators to improve sharia-based corporate governance. This research provides insights for the development of more effective and integrative governance policies.

Keywords: Good corporate governance, sharia compliance, sharia supervisory board, islamic financial reporting, dualistic legal system.

Introduction

Good Corporate Governance (GCG) has become one of the essential elements in ensuring the viability, credibility, and sustainability of companies around the world. (Harahap, 2010) In the context of an increasingly complex global economy, GCG plays a strategic role in increasing transparency, accountability and effective risk management (Morin & Orsini, 2013). According to Mohamad, good corporate governance is a mechanism to direct and control the company, thus creating a structure that ensures stakeholders' interests can be protected fairly (Mohamad & Muhamad Sori, 2011). In sharia-based companies, GCG implementation not only fulfills the needs of conventional regulations but also complies with sharia principles, including the prohibition of usury, gharar, and maysir (Alqaran-Alziyadat, 2016) which form the basis for business operations and decisions. The application of these principles not only aims to achieve profit, but also to ensure social and environmental sustainability in accordance with Islamic values.

From a Shariah perspective, corporate governance is not only about complying with formal laws, but also fulfilling Islamic values such as justice, honesty and social responsibility (al-Kahtani, 2014). Compliance with these principles a major challenge for Shariah-based companies in many countries, especially in regions with legal dualism such as Indonesia, Malaysia and the Gulf countries. The Shariah Supervisory Board (DPS), which is one of the unique pillars in the governance structure of Islamic companies, has the responsibility to ensure that the company's operations are run in accordance with Islamic values (Nadwi, 2012).

Despite its importance, the relationship between GCG and compliance in Shariah-based companies has not been systematically explored. Most of the existing literature focuses on partial analysis, such as the effect of the board of directors or audit committee on general firm performance, without going into depth on how GCG mechanisms can promote compliance with sharia principles (Htay et al., 2010). Moreover, the available empirical studies are still limited to specific sectors, such as Islamic banking, and pay little attention to other sectors such as Islamic insurance, fintech, or Islamic capital markets (Deo & Ashraf, 2013). This lack of systematic research creates a significant literature gap. A systematic literature review is needed to identify the key dimensions of GCG that are relevant in driving compliance in Shariah-based companies. This review can also provide practical insights for regulators, company management, and other stakeholders to strengthen the governance framework that supports holistic Shariah compliance.

This study aims to address this gap by using a PRISMA-based Systematic Literature Review (SLR) approach. By analyzing relevant literature from reputable databases such as Scopus and Web of Science, this study will evaluate how GCG can encourage compliance in sharia-based companies. The research results are expected to provide theoretical and practical contributions to strengthen Islamic corporate governance that is more transparent, accountable, and in accordance with Islamic principles.

Good Corporate Governance (GCG) plays a strategic role in ensuring that sharia-based companies fulfill the principles of compliance with Islamic law (Ardana, 2019). However, the implementation of GCG in the sharia context still faces various challenges. Although many Islamic companies have adopted GCG frameworks, their effectiveness in encouraging compliance with sharia principles, such as the prohibition of usury, gharar and maysir, is still not systematically measured. Therefore, several fundamental questions arise, which form the basis of this research:

1. **How does GCG affect the level of compliance in sharia-based companies?**
   GCG is believed to have a significant role in driving compliance, but this relationship is often affected by various factors, such as board structure, transparency, and the role of the Sharia Supervisory Board (DPS). Further research is needed to explore how these dimensions affect compliance.
2. **What are the key dimensions of GCG that are relevant for Shariah compliance?**
   In the context of Islamic companies, GCG dimensions such as board independence, accountability, transparency and the role of DPS are considered important. However, there is no consensus on which dimension has the most significant influence in ensuring compliance with sharia law.
3. **What are the best practices that can be adopted to improve Islamic corporate governance?**
   Best practices adopted in global Islamic companies are often contextual, depending on local regulations and organizational culture. This research aims to identify best practices that are relevant and widely applicable.

By answering these questions, this research will not only provide theoretical insights but also offer practical recommendations that can be implemented in Shariah-based companies to improve their governance.

This study aims to fill the existing literature gap by exploring the role of Good Corporate Governance (GCG) in promoting compliance in Shariah-based companies. The specific objectives that this comprehensive study seeks to achieve cover a range of critical areas, which include: conducting a thorough evaluation of the important role that Good Corporate Governance (GCG) plays in promoting and ensuring compliance in companies operating under Shariah principles and guidelines. This detailed examination will involve an in-depth analysis of how the various GCG mechanisms, which include but are not limited to the structure of the board of directors, the functioning of the audit committee, and the implementation of the Dividend Policy System (DPS), collectively contribute to enhancing the overall level of corporate compliance with the established principles of Shariah law and its underlying principles.

In addition, this research seeks to carefully identify and describe the dimensions along with key indicators of good Corporate Governance that have particular relevance in the Shariah context, thereby facilitating a clearer understanding of its impact. The main objective of this aspect of the research is to systematically identify and categorize the important dimensions of GCG that exert a major influence on Shariah compliance, which will ultimately enable the establishment of a more effective and robust governance framework tailored to the needs of these organizations. In addition, this study hopes to formulate and provide practical recommendations aimed at improving the governance structure of companies operating in accordance with Shariah principles. Based on the insights and findings gained from the research, a series of specific and actionable recommendations will be articulated to assist Shariah-compliant companies in significantly improving their governance practices, both at the organizational level, relating to internal management and operations, as well as within the broader regulatory system governing these entities.

With this objective, the research is expected to make a significant contribution to the development of academic literature and shariah-based corporate governance practices globally. The research will also explore the challenges faced by companies in implementing Shariah principles and how they can overcome such obstacles to achieve better compliance.

Literature Review

1. Concept of Good Corporate Governance

Good Corporate Governance (GCG) is a framework designed to ensure that companies are managed effectively, transparently, and responsibly to meet the interests of stakeholders. (Yeanny Ursula et al., 2020). According to Kusumawardani, GCG is a system to direct and control the company so that it can achieve its goals while protecting the interests of stakeholders (Kusumawardani et al., 2020). GCG includes various structural mechanisms and processes designed to ensure that the company acts in accordance with its strategic objectives. (Bell, 1997). De Arteche (2011) defines GCG as the procedures and processes through which an organization directed and controlled, which includes the division of responsibilities between shareholders, the board of directors, and executive management. (De Arteche, 2011). The main components of GCG include:

a. **Board of Directors and Commissioners**: Responsible for setting company strategy and monitoring management performance.
b. **Audit Committee**: Ensure the integrity of the company's financial statements.
c. **Information Transparency**: Provision of accurate and timely information to shareholders and other stakeholders.
d. **Internal Control Mechanism**: A structure that ensures compliance with laws, regulations, and company policies.

GCG Principles

The core principles of GCG that form the basis of good corporate governance are as follows:

a. **Transparency**:
   Transparency ensures that companies provide clear, accurate and timely information to stakeholders. This principle is very important in increasing public trust in the company (Esendemirli & Saygili, 2014).
b. **Accountability**:
   Accountability ensures that decision makers in the company are responsible for their actions to shareholders and other stakeholders. According to Lich (2002), accountability can improve the efficiency and credibility of the company in the long run (Licht, 2002). and encourage more ethical business practices. Participation: Participation involves stakeholders in the decision-making process, so that their voices are heard and considered in company policy.
c. **Responsibilities**:
   This principle refers to the company's compliance with applicable laws and regulations as well as its responsibility to society and the environment. In the context of Shariah, responsibility also includes compliance with Islamic values (Basov & Bhatti, 2014). These principles are interrelated and form a strong foundation for creating harmonious relationships between companies and stakeholders, and promoting sustainability in business practices.
d. **Independence**:
   Independence means that the management of the company is carried out without pressure from other parties that can interfere with the objectivity of decision making (Ference, 2013). Independent boards of commissioners play an important role in maintaining this balance. Close supervision of company practices and decisions is also necessary to ensure that these principles are applied consistently and effectively, thus creating trust among all relevant parties.
e. **Fairness**:
   Fairness means that companies provide equal treatment to all stakeholders. This principle emphasizes the importance of respecting the rights of minority shareholders and employees (Beugré, 1998).

The implementation of these principles not only aims to improve the operational efficiency of the company but also to maintain investor and public confidence. In the context of Shariah-based companies, these principles have additional relevance as they must be in line with Islamic values, such as social justice and the prohibition against practices that harm other parties (Ahmed, 2011).

2. Compliance in the Shariah Context

Definition of Shariah-Based Compliance

Shariah-based compliance refers to the degree to which a company adheres to the principles of Islamic law in all its operational activities. These principles include the rules set by Islamic law, which include prohibitions against usury (interest), gharar (uncertainty), and maysir (gambling), as well as the application of ethical values such as fairness, transparency, and social responsibility (Basov & Bhatti, 2014). In the context of sharia-based companies, compliance focuses not only on external regulations but also on the principles of ethics and morality contained in Islamic teachings (Febianto, 2009).

The Shariah Supervisory Board (DPS) has an important role in overseeing and ensuring this compliance. The DPS is responsible for verifying that all company activities, including products and services, are in compliance with sharia law. Shariah compliance is also reinforced by international standards, such as those developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) (Azmi et al., 2016).

Dimensions of Shariah Compliance

Shariah compliance can be analyzed through three main dimensions, namely the prohibition of usury, transparency of transactions, and compliance with Islamic law.

a. **Prohibition of Riba (Interest)**
   The prohibition of usury is one of the fundamental principles in Islamic law which is the main basis for the operations of sharia-based companies. In the Qur'an, usury is strictly prohibited because it is considered an unfair practice and harms society (Surah Al-Baqarah: 275-278). Islamic companies are required to avoid usury in all forms of transactions, including in funding and investment (Walsh, 2007).
   Studies show that the prohibition of usury is a major challenge for Shariah-based companies in the face of conventional financial systems that are generally interest-based (Seyadi, 2015).

b. **Transaction Transparency**
   Transparency is an important element in ensuring that all parties involved in a transaction have a clear and fair understanding of the terms and conditions that apply. From a Shariah perspective, transparency aims to eliminate gharar or uncertainty in contracts and transactions (Sekreter, 2013).
   For example, Shariah-based companies must provide complete and accurate information about their products and services to consumers. This transparency also includes financial reporting that complies with sharia standards to ensure accountability (Febianto, 2009).

c. **Compliance with Islamic Law**
   This dimension covers all aspects of the company's operations that must comply with sharia principles, including prohibitions against activities that are considered haram, such as gambling (maysir) or the production of non-halal goods. This compliance is not only limited to products and services but also includes internal governance, risk management policies, and human resource management practices (Febianto, 2009).

Compliance with Islamic law is often overseen through the mechanism of Shariah Supervisory Boards that work closely with regulators to ensure the integrity of shariah in all aspects of a company's operations.

By ensuring compliance with these dimensions, Shariah-compliant companies not only fulfill legal obligations but also create added value that supports economic, social and environmental sustainability. In addition, Shariah compliance helps build public trust, which is a critical asset for a company's success in the global marketplace.

3. Relationship between GCG and Sharia Compliance

Previous Studies that Show the Relationship between GCG Mechanisms and Compliance in Public Companies

The relationship between Good Corporate Governance (GCG) and compliance has been widely explored in the context of public companies. GCG is considered an important tool to improve transparency, accountability and corporate integrity, all of which contribute to increased compliance with regulations and operational standards (Sandraningsih & Putri, 2015). In the financial sector, for example, the presence of strong audit committees and independent boards has been shown to improve the quality of financial reporting and compliance with international accounting standards (Baxter, 2007).

GCG mechanisms, such as information transparency, internal controls and board independence, have been shown to play a significant role in promoting compliance. Studies show that companies with more independent board structures are less likely to engage in financial manipulation practices. In addition, regular audit committee oversight has been associated with higher compliance with financial sector regulations (Beasley et al., 2000).

In the context of compliance in general, GCG not only functions as an internal control tool but also as a mechanism to reduce legal and reputational risks. Prager's research (1990) states that companies that implement GCG consistently have better relationships with regulators, thereby reducing the risk of legal sanctions (Prager & Cala, 1990).

However, while this relationship has been widely studied in general corporations, the context of Shariah-based companies presents unique challenges. In addition to facing conventional regulations, Shariah-based companies must also comply with Islamic law, which introduces an additional dimension to compliance.

Gaps in Research Related to Shariah-Based Companies

In the context of Shariah-based companies, the relationship between GCG and compliance is still less well-defined. Most previous studies only highlight the role of the sharia supervisory board (DPS) as the main mechanism in ensuring sharia compliance, without exploring in depth how other elements of GCG, such as transparency and accountability, contribute to compliance (Arman, 2013).

In addition, most research related to compliance in sharia-based companies is still limited to the Islamic banking sector, while other sectors, such as Islamic insurance and Islamic capital markets, are relatively rarely highlighted. The role of GCG mechanisms in the sharia-based non-financial sector still requires a more in-depth study. (Basov & Bhatti, 2014)

Another significant gap is the lack of comparative studies analyzing the effectiveness of GCG in driving compliance among Shariah-based companies in countries with different legal systems. For example, companies in countries with strong Islamic law, such as Saudi Arabia, may have a different approach to compliance compared to companies in countries with legal dualism, such as Malaysia or Indonesia.

Furthermore, previous studies have also paid little attention to how Shariah principles, such as the prohibition of riba and gharar, can be effectively integrated into existing GCG frameworks. Most studies only focus on the formal implementation of GCG without exploring how Islamic values can influence the overall effectiveness of governance (Obid & Naysary, 2014).

While there is ample evidence on the positive relationship between GCG and compliance in general companies, research related to sharia-based companies is still relatively limited. This gap creates an urgent need for a more comprehensive and systematic study on the role of GCG in driving compliance in Shariah-based companies. This study aims to fill the gap, focusing on identifying key relevant GCG dimensions and best practices to enhance compliance in an Islamic context.

Method

1. Research Approach

This study uses the Systematic Literature Review (SLR) method to examine in depth the relevant literature on the role of Good Corporate Governance (GCG) in encouraging compliance in sharia-based companies. The SLR approach was chosen because it allows a structured, transparent and comprehensive analysis of the published literature, so as to identify significant patterns, themes and research gaps. This research protocol follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines, which includes a selection process of articles based on predetermined inclusion and exclusion criteria and systematic data analysis steps.

2. Search Procedure

The article search process was conducted through two major academic databases, **Scopus** and **Web of Science**, as they have a wide coverage of reputable international journals. The keywords used in the search were:

- "Good Corporate Governance"
- "Compliance"
- "Islamic companies"
- "Sharia compliance"
- "Corporate governance in Islamic finance"

Keyword combinations use Boolean operators (AND, OR) to narrow or broaden the search as needed. For example, a search like "Good Corporate Governance" AND "Sharia compliance" is used to get articles relevant to this topic.

Inclusion criteria applied were:

1. English article.
2. Articles published between 2010 and 2023.
3. Articles that explicitly discuss GCG and sharia compliance in various sectors of sharia-based companies.

Exclusion Criteria include:

1. Non-empirical studies, such as editorials, commentaries, or opinions.
2. Industry reports that are not verified by scientific journals.
3. Articles that do not clearly state the research method.

Search results were then filtered through title and abstract analysis, followed by a full-text review to ensure the article's appropriateness to the research topic.

3. Data Analysis

Data analysis was conducted using thematic analysis technique, which aims to identify patterns and main themes from the selected literature. Articles that met the inclusion criteria were coded based on the GCG dimensions and indicators discussed, such as transparency, accountability, the role of the Sharia Supervisory Board (DPS), and its impact on sharia compliance.

In addition, the key dimensions of GCG found from the literature are ranked accordingly:

1. **Frequency of occurrence in the literature**: How often the dimension is discussed.
2. **Significance in the context of sharia**: How relevant the dimension is in driving compliance with Shariah principles.

The results of this analysis are synthesized to provide theoretical and practical insights, including the identification of research gaps that can serve as a basis for further research. This approach ensures that this research is comprehensive and able to make a significant contribution to the academic literature related to GCG and Shariah compliance.

Dataset Analysis and Preliminary Findings

To support this research, a dataset analysis was conducted using five main data sources consisting of articles relevant to Good Corporate Governance (GCG) and Shariah compliance. This dataset includes key information such as author, article title, year of publication, journal source, and abstract (if available). The focus of the analysis was to identify dominant keywords, major themes, and patterns relevant to the research topic.

Dataset Structure

The dataset used has a uniform column structure with the following key information:

- **Cites:** Number of article citations.
- **Authors:** Name of the author of the article.
- **Title:** Article title.
- **Year:** Year of publication of the article.
- **Source:** Source of publication (journal or conference).
- **Abstract:** Abstract of the article (if available).
- **FullTextURL:** Link to the full text of the article (if available).

The first step was to screen the articles by publication year (2010-2023) to ensure relevance to the current context. After that, the articles were analyzed based on title, abstract, and keywords to identify relevant themes and dimensions.

Keyword Analysis Results

The results of the keyword frequency analysis show some dominant terms that often appear in article titles:

No`	Keywords	Frequency
1	Corporate	122
2	Islamic	94
3	Governance	85
4	Evidence	51
5	Financial	39
6	Management	36
7	Study	31
8	Review	30
9	Systematic	23

1. **Corporate (122 times):** Indicates a primary focus on corporate governance.
2. **Islamic (94 times):** Underscores the relevance of the Shariah context in Islamic-based companies.
3. **Governance (85 times):** Reinforced the importance of governance mechanisms.
4. **Evidence (51 times):** Indicates the number of articles based on empirical data.
5. **Financial (39 times):** Deals with the financial sector, especially Islamic banking.

In addition, words such as **management**, **study**, **review**, and **systematic** indicate the high volume of literature review and management-based research.

Identification of Key Themes

Based on thematic analysis of the article titles and abstracts, several main themes were identified:

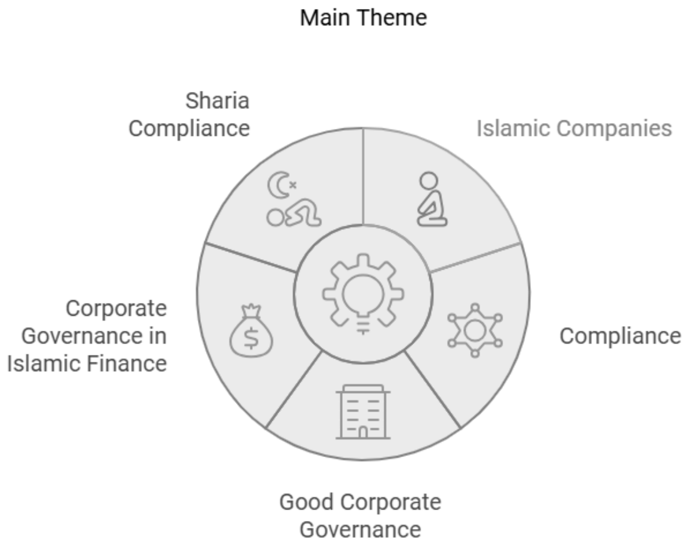

Figure1 . Main Theme Identification Results

1. Islamic Companies
- Consumer decisions on halal products and sukuk (Islamic bonds).
- Corporate ownership and risk-taking behavior in Islamic banks.

2. Compliance
- The broader theme includes compliance with ethical and regulatory standards, but does not directly focus on Islamic companies.

3. Good Corporate Governance
- The relationship between GCG and corporate social responsibility (CSR).
- The influence of GCG on sustainability disclosure.

4. Corporate Governance in Islamic Finance
- Shariah disclosure in Malaysian and Indonesian Islamic banks.
- A conceptual framework for assessing corporate social responsibility in Islamic financial institutions.
- Islamic governance perspectives in financial transactions.

5. Sharia Compliance
- Shariah compliance in Islamic banking.
- Shariah supervision model and service quality in Islamic banks.
- AAOIFI reporting standards and comparison between conventional and Islamic banks.

Preliminary Findings

1. **Dominance of Islamic Governance Themes:** Most of the relevant articles focus on Islamic governance, especially within the banking and finance sector. Themes such as Islamic disclosure, CSR, and sustainability dominate the literature.
2. **Lack of Focus on Specific Dimensions:** While transparency and board independence are often mentioned, other dimensions such as accountability and sharia auditing are less discussed in depth.
3. **Abstract Limitations:** Most of the article abstracts in the dataset are not available, so theme identification often relies on journal titles and sources.
4. **Inconsistent Keywords:** Relevant articles often do not use specific terms such as "sharia compliance" or "Islamic governance," which complicates the screening process.

Analysis of the dataset shows that the existing literature already covers many important themes related to GCG and compliance in Shariah-based companies, but there are still gaps in the discussion of certain dimensions. These findings provide a foundation to further explore the relationship between GCG and Islamic compliance, especially in underrepresented contexts such as accountability and the role of Islamic audit.

Results and Discussion

1. Key Dimensions of GCG in Sharia Companies

In the context of Shariah-based companies, Good Corporate Governance (GCG) has unique dimensions that distinguish it from conventional corporate governance. These dimensions are based on Islamic principles that emphasize fairness, transparency and responsibility. Based on the literature analysis, the three main dimensions that form the basis of GCG implementation in Islamic companies are the role of the Sharia Supervisory Board (DPS), Islamic financial transparency and reporting, and board independence and compliance with sharia law.

1.1. The role of the Sharia Supervisory Board (DPS)

The Sharia Supervisory Board (DPS) is a unique element in the governance structure of sharia-based companies. The DPS is tasked with ensuring that all company activities, including products, services, and operations, are in accordance with the principles of Islamic law (Hidayatulloh, 2018). DPS has the responsibility to provide fatwas, conduct sharia audits, and advise management on sharia compliance.

The study by Alam Vaagaasar (2009) shows that the presence of a competent DPS can increase stakeholders' trust in the company (Vaagaasar, 2009). An effective DPS not only ensures compliance with Shariah law but also enhances the company's reputation in the global market. However, several studies identify challenges in the implementation of DPS, such as the lack of universal standards in sharia supervisory mechanisms. (Mohamad & Sori, 2016)

1.2. Islamic Financial Transparency and Reporting

Transparency is one of the key principles in GCG that is relevant to all types of companies, including sharia-based companies. In the context of sharia, transparency has a broader meaning as it includes the obligation to disclose honest and fair information, including aspects of compliance with Islamic law (Sekreter, 2013). This information disclosure not only increases stakeholder trust, but also contributes to better decision-making and accountability in company operations.

Islamic financial reporting plays a key role in ensuring transparency. Reporting standards such as those developed by AAOIFI are designed to ensure that financial statements not only meet international accounting standards but also reflect compliance with sharia principles. For example, reporting should include information on sharia-compliant sources of income, zakat distribution, and compliance with the prohibition of usury (Azmi & Hanifa, 2015).

Research by Kamla (2009) found that transparency in Islamic financial reporting increases corporate accountability to stakeholders, including investors, regulators, and the general public. However, a challenge in the implementation of transparency is the lack of harmonization of reporting standards between different countries.

1.3. Board Independence and Sharia Law Compliance

The independence of the board of directors and commissioners is an important element in ensuring the effectiveness of corporate governance. In sharia-based companies, this independence has additional implications as it is directly related to the company's ability to maintain integrity in applying sharia principles.

Board independence can help reduce potential conflicts of interest and ensure that strategic decisions are not only profit-oriented but also in accordance with Islamic law (Van den Berghe & Baelden, 2005). In addition, an independent board of commissioners can serve as an effective supervisor of management in running the company's operations.

However, some studies note that board independence in Shariah-based companies is often hampered by board members' lack of understanding of Shariah law. Therefore, it is important to ensure that board members have adequate knowledge of aspects of Islamic law, in addition to managerial and business skills (Sori et al., 2015).

The key dimensions of GCG in Shariah-based companies - namely the role of the DPS, financial transparency and reporting, and board independence - demonstrate the importance of integration between Islamic principles and modern governance practices. Although the implementation of these dimensions faces various challenges, they provide a solid foundation for enhancing shariah compliance and stakeholder trust.

2. Shariah Compliance Indicators

Compliance with Local and International Regulations (AAOIFI, IFSB)

A key indicator of shariah compliance in Islamic-based companies is the extent to which they comply with local regulations and international standards specifically designed for Islamic financial institutions and businesses. The two main institutions that have been referenced in developing the Shariah regulatory framework are the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

AAOIFI has established Islamic accounting, auditing, and governance standards that aim to ensure that all operational activities of Islamic-based companies are consistent with the principles of Islamic law. For example, AAOIFI requires Islamic financial statements to include additional information such as sources of Islamic income and zakat distribution (Sarea & Hanefah, 2013). In addition, the standard also sets out guidelines for sharia supervision by the Sharia Supervisory Board (DPS), which is responsible for ensuring compliance with fatwas and Islamic law.

The IFSB, on the other hand, provides regulatory guidance to authorities at the national level. IFSB standards cover aspects of risk management, corporate governance, and Islamic accounting, designed to enhance the stability and integrity of the Islamic financial system globally (Sarea & Hanefah, 2013). Adherence to these standards not only assists Shariah-based companies in meeting local legal requirements but also enhances their credibility in the international market.

However, the implementation of these regulations faces challenges such as the lack of harmonization between national and international standards, as well as the limited capacity of supervisory agencies in ensuring compliance (Vos, 2009). Therefore, integration between local and international regulations is an important step to achieve effective Shariah compliance.

Elimination of Riba and Gharar Elements in Company Operations

The prohibition of riba (interest) and gharar (uncertainty) are fundamental principles in the Islamic economic system. In the context of Shariah-based corporate operations, a key indicator of compliance is the extent to which companies have eliminated these two elements from their business transactions and activities.

Abolition of Usury

Shariah-based companies are strictly prohibited from earning income from interest-based transactions, whether in the form of loans or investments. As an alternative, the Islamic financial system uses profit-sharing-based contracts such as **mudharabah** (business partnership) and **musharakah** (investment cooperation) which are more in line with the principles of justice in Islam (Rosly, 2005). In addition, inadvertently earned non-halal income should be immediately channeled to charitable institutions as a form of asset purification.

Elimination of Gharar

Gharar refers to uncertainty or ambiguity that can lead to unfairness in transactions. To ensure compliance with this principle, Islamic companies should ensure that all contracts have clear terms and conditions. For example, in a sale and purchase transaction, information about price, quality, and delivery time should be explained in detail to avoid potential disputes (Razali, 2011).

Operational Challenges

While these principles are clear, implementing them in the real world is not always easy. Companies often face challenges in finding halal alternatives that can compete economically with conventional products or services. In addition, a lack of understanding of the principles of riba and gharar among managers and employees can hinder effective implementation (Yusof & Nerina, 2013).

Shariah compliance indicators include adherence to local and international standards and elimination of riba and gharar in the company's operational activities. These two indicators not only serve as a measure of the integrity of Shariah-compliant companies but also contribute to their reputation in the global market. However, challenges in standards harmonization and operational implementation indicate that there is still room for improvement in Shariah-compliant corporate governance.

3. Best Practices for GCG in Sharia Companies

Case Studies from Companies that Successfully Integrate GCG and Sharia Compliance

The integration of Good Corporate Governance (GCG) and compliance with sharia principles has provided a competitive advantage for some sharia-based companies. Case studies of some companies that have successfully implemented these best practices provide valuable insights into effective implementation strategies.

Bank Islam Malaysia Berhad (BIMB)

Bank Islam Malaysia Berhad (BIMB) is one of the pioneers in the global Islamic banking system that successfully integrates GCG and Shariah compliance. BIMB employs a strong and independent Shariah Supervisory Board (DPS) structure, which works closely with the board of directors to ensure all bank operations comply with Islamic law. The DPS at BIMB has full authority to evaluate the bank's contracts, products and policies before they are implemented.

Key Practices:

1. Involving scholars who are experts in sharia law and modern economics as DPS members.
2. Transparency in financial statements, by including information on zakat distribution, elimination of non-halal income, and sharia audits.
3. Use of international standards such as AAOIFI to ensure conformity of reporting and operations.

Dubai Islamic Bank (DIB)

Dubai Islamic Bank (DIB) is also an important example. The bank prioritizes transparency by publishing an annual report that includes an Islamic audit. In addition, DIB introduced internal training for employees to enhance their understanding of Shariah principles, enabling them to perform their roles in accordance with expected governance.

Key Practices:

1. Shariah audits are conducted periodically and published to stakeholders.
2. Integration of sharia-based training in human resource development programs.
3. Close cooperation between local and international regulators to strengthen compliance standards.

Implications for Companies in Countries with Dualistic Legal Systems

Many countries, such as Malaysia, Indonesia and Pakistan, have dualistic legal systems that combine elements of both conventional and sharia law. This system creates unique challenges for Shariah-based companies, especially in navigating overlapping regulations and meeting the expectations of both legal frameworks.

Malaysia as a Case Study

Malaysia has become a center of innovation in Shariah-based corporate governance, with a system that supports the existence of legal dualism. Bank Negara Malaysia (BNM) has developed a comprehensive Islamic governance framework, which includes the role of the DPS, reporting standards, and Islamic risk management guidelines.

Implications:

1. Companies should have mechanisms in place to ensure alignment between local regulations and Shariah principles.
2. National regulations such as the *Shariah Governance Framework* provide clear operational guidelines, but companies must still adapt to the needs of the international market.

Challenges and Recommendations

In other countries, such as Indonesia and Pakistan, the dualistic legal framework still faces the challenge of lack of harmonization between regulators. This can hinder the integration between GCG and Shariah compliance. Therefore, companies need to develop innovative approaches to address this gap:

1. **Capacity Building of DPS:** DPS should be provided with training on both conventional and Shariah law to ensure that they can function effectively in both systems.
2. **Collaboration with Regulators:** Companies need to collaborate with local and international regulators to ensure consistency in the implementation of compliance standards.

3. **Use of Digital Technology:** Technologies such as blockchain can be used to improve transparency and efficiency in Islamic financial reporting.

Case studies from companies such as BIMB and DIB show that the integration of GCG and Shariah compliance requires a commitment to transparency, DPS independence, and human resource training. Meanwhile, in countries with dualistic legal systems, the successful implementation of GCG in Islamic companies depends heavily on regulatory harmonization and collaboration between stakeholders. By adopting these best practices, Shariah-based companies can strengthen their competitiveness in the global market.

Research Implications

1. Theoretical Implications

This research makes an important contribution to the literature on Good Corporate Governance (GCG) and compliance in the context of Shariah-based companies. By integrating modern governance principles and Islamic values, this research expands the scope of literature related to effective governance in Shariah-based companies.

Contributions to the GCG and Compliance Literature in the Sharia Context

This study explains the role of unique dimensions of GCG, such as Sharia Supervisory Boards (DPS), and sharia transparency, which are rarely discussed in conventional governance literature. The results also show how the principles of Islamic law can be harmoniously integrated with conventional governance mechanisms, thus adding a new perspective to the literature on corporate governance in countries with dualistic legal systems.

Development of Sharia-based GCG and Compliance Relationship Model

This study offers a new theoretical framework that links the key dimensions of GCG, such as board independence, transparency, and Islamic audit, with the level of compliance with Islamic law. The model provides a foundation for further research, particularly to test the empirical relationship between GCG and Islamic compliance in various sectors, such as Islamic banking, insurance, and capital markets.

2. Practical Implications

In addition to providing theoretical contributions, this study also produces practical recommendations that can be applied by managers of sharia-based companies and regulators to improve governance and compliance.

Recommendations for Shariah-Based Company Managers

1. **Strengthening the Sharia Supervisory Board (DPS):** Companies should ensure that the DPS consists of individuals who not only have expertise in Islamic law but also an understanding of modern governance principles. Continuous training for DPS members can enhance their effectiveness in carrying out supervisory duties.
2. **Increased Transparency:** Companies should adopt more transparent reporting practices, including disclosures related to zakat distribution, elimination of non-halal income, and sharia audit results. The use of digital technologies, such as blockchain, can help improve transparency and efficiency.
3. **System-based Compliance:** The implementation of a risk management system designed to monitor compliance with Shariah principles in real-time can improve the effectiveness of governance.

Input for Regulators

1. **Harmonization of Local and International Standards:** Regulators should work closely with international bodies such as AAOIFI and IFSB to ensure that local regulatory frameworks are in line with global standards, making it easier for Islamic companies to operate in international markets.
2. **Development of Shariah-Specific Policies:** Regulators need to develop policies that provide specific guidelines on Islamic financial reporting, DPS supervision, and Shariah-based risk management. For example, the introduction of the *Sharia Governance Framework* by Bank Negara Malaysia can serve as a model for other countries.
3. **Strengthening Regulatory Capacity:** Supervisory agencies should be empowered with adequate training and resources to ensure effective implementation of governance in Shariah-based companies.

The theoretical and practical implications of this study indicate that the integration of GCG and sharia compliance not only enables the achievement of compliance with Islamic principles but can also enhance the credibility and competitiveness of sharia-based companies in the global market. With the implementation of these recommendations, both company managers and regulators can create an ecosystem that supports better sharia governance and compliance.

Conclusions

This study highlights the importance of Good Corporate Governance (GCG) in encouraging compliance in sharia-based companies. Through a systematic literature review, this study found that the relationship between GCG and sharia compliance is strongly influenced by the unique dimensions inherent in sharia-based governance, such as the role of the Sharia Supervisory Board (DPS), sharia financial transparency and reporting, and board independence. These dimensions not only assist companies in fulfilling the principles of Islamic law but also contribute to their reputation and business sustainability.

In the context of Shariah-based companies, GCG serves as a framework that enables the integration of Islamic values into modern business practices. A strong DPS role, transparent financial reporting, and the elimination of riba and gharar elements in the company's operations are key indicators of compliance. In addition, the success of governance practices in some companies, such as Bank Islam Malaysia Berhad (BIMB) and Dubai Islamic Bank (DIB), provides clear evidence that effective GCG can enhance both shariah compliance and corporate competitiveness.

However, the study also identified challenges in the implementation of GCG in Shariah-based companies, especially in countries with dualistic legal systems. The lack of harmonization between local and international standards and the limited capacity of regulators are the main obstacles that need to be overcome to achieve more comprehensive Shariah compliance.

Suggestions for Further Research

While this research provides valuable theoretical and practical insights, there is still room for further exploration:

1. **Empirical Testing of the Relationship between GCG and Compliance in Various Sharia Sectors**
   Future research can strengthen these findings through an empirical approach, by analyzing quantitative and qualitative data from various sharia-based sectors, such as insurance (takaful), Islamic capital markets, and Islamic fintech. This cross-sectoral

study is important to understand the dynamics of the relationship between GCG and compliance in various industries.

2. **Cross-Country Comparative Analysis**
   Further studies can explore the differences in GCG implementation and Islamic compliance in countries with different legal systems. This research can help identify best practices that can be adapted by Islamic companies in various contexts.
3. **Development of Harmonized Regulatory Framework**
   Research on harmonization strategies between local and international standards, such as AAOIFI and IFSB, is needed to improve the effectiveness of Shariah-based corporate governance.

By adopting this approach, future research can provide deeper insights and help create a governance ecosystem that supports the sustainability of Islamic companies globally.

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