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The Covid-19's Impact on Sharia banks in Southeast Asia: Islamicity Performance Index, Intellectual Capital, and Islamic Corporate

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Abstract

The COVID-19 pandemic has impacted Islamic banking in Southeast Asia, with corporate governance playing a crucial part in handling and controlling companies. This research studies the influence of issues such as Intellectual Capital, Islamic Income vs. Non-Islamic Income Ratio, and Zakat Performance Ratio on Islamic Corporate Governance in the region post-pandemic. The present research employs quantitative research techniques that depend on secondary data. To gather the necessary data, a documentation approach was adopted, involving the examination of annual reports from Islamic banks in Southeast Asia. Data was acquired through the utilization of a panel data regression model operated by Eviews 12. Findings suggest that intellectual capital and the Islamicity performance index are key drivers of ICG. To improve governance, Islamic banking institutions should focus on preserving intellectual capital and enhancing their Islamicity performance. Continuous efforts to enhance ICG are critical for dealing with global concerns in the aftermath of COVID-19.

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1. Introduction

Islamic Corporate Governance (ICG), Intellectual Capital (IC), and the Islamicity Performance Index (IPI) represent interrelated concepts within the territory of Islamic banks. A good governance conducted in a company is responsible for the oversight of organisational management, dynamics of stakeholder relationships, and the evaluation of performance metrics. IC encompasses the intangible assets that augment a business's capabilities and competitive advantage (Akkas & Asutay, 2023). The IPI evaluates financial and ethical performance (Azwirman et al., 2019). Integrating these concepts is crucial for effective management strategies in Islamic banking, enhancing overall performance. However, the Islamicity Index has faced criticism for its perceived lack of Islamic characteristics and reliance on scientific positivism.

The Islamic viewpoint on Corporate Governance (CG) and Good Corporate Governance (GCG) is referred to as ICG in Sharia financial literature. ICG emphasises Shariah Governance (SG), and the Sharia Supervisory Board oversees sharia compliance (Mamatzakis et al., 2023; Meutia & Kartasar, 2023). The transparency associated with ICG significantly contributes to the financial success of Islamic banking institutions. Empirical studies indicate that the adoption of Islamic governance standards, coupled with an emphasis on IC, fosters a sustainable competitive edge and enhances overall corporate valuation. The cultivation of IC, which encompasses the knowledge of human resources and the development of brand identity, is essential for improving both shareholder and consumer perceptions regarding a business's value and operational performance. It is imperative for organisations to prioritise the development of IC to achieve substantial performance enhancements. Consequently, research focused on IC is likely to yield beneficial outcomes for corporations.

The Islamic banking sector in Southeast Asia, particularly in countries with a majority Muslim population like Indonesia, has seen significant growth. Sharia financial and banking sectors are expanding in the region, contributing to overall development activities (Ascarya & Sakti, 2022). The IPI method is conducted to assess the Islamic banks' performance, considering various aspects beyond just financial performance. Southeast Asia is expected to see a 20.3% growth in Sharia financial assets in 2021, with Malaysia and Indonesia leading the way in Sharia banking operations (Nugraha et al., 2020).

The selected Islamic banks in Southeast Asia as the emphasis of enquiry is ascribed to the substantial Muslim demographic present in the region. Analysing ICG within these nations is expected to yield advantages for both the banking institutions and the broader community. The consequence of the COVID-19 pandemic on Islamic banking necessitates a thorough evaluation of its effectiveness. It is essential to assess the performance of these companies and their intermediary functions, with particular emphasis on financial performance and indicators of ICG as critical components (Al Farooque et al., 2020). Pahlevi's research highlights the potential influence of Sharia compliance, deposit structure, and ownership concentration on ICG in Indonesian banks from 2016 to 2020 (Pahlevi, 2023). Further examination of these factors is necessary.

Moreover, some researchers show that profit-sharing investment accounts, blockholder ownership, and managerial ownership impact ICG disclosure (Manocha et al., 2023; Mutamimah & Saputri, 2023; Riani & Maulani, 2021). However, blockholder ownership and managerial ownership do not have a negative effect. Others found that IPI, IC, and profitability affect Islamic social reporting in Sharia banks (Al-Gamrh et al., 2020; Azwirman et al., 2019). The dependent variable is ICG, whereas the independent variables are IPI and IC. Al Qashouti & Shirazi suggest that COVID-19 has not significantly impacted the IPI (AlQashouti & Shirazi, 2024). The objective of the researcher is to test effects of IPI and IC on ICG within the context of Islamic Banking in Southeast Asia following the COVID-19 pandemic. Accordingly, this enquiry seeks to analyse the extent to which factors such as IC, director employee welfare ratio, equitable distribution ratio, and profit sharing ratio, zakat performing ratio, and the comparative analysis of Islamic versus non-Islamic income influence ICG in the region during the post-COVID-19 era.

2. Literature Review

Some academics found that the IPI, IC, and profitability affect Islamic social reporting disclosure in banks and also on Sharia business unit profitability (Buallay et al., 2019; Wahyuni et al., 2023). Moreover, Khan and Zahid found no major alteration in the IPI before and during the COVID-19 pandemic and also examined the overcome of macroeconomic issues on Islamic commercial banks in Indonesia (Khan & Zahid, 2020).

Maulana conducted a comparative analysis of the financial enactment of Islamic banks in ASEAN by employing the IPI Approach. The results revealed that Brunei's Islamic bank exhibited the highest average ratios, positioning it as the top performer in the region. Malaysia and Indonesia followed suit, securing the second and third positions respectively (Maulana et al., 2018). Conversely, others tested the effect of deposit structure and ownership concentration on the disclosure of ICG in Indonesian and Malaysian Islamic banks. Their results directed that deposit structure had a crucial part in increasing transparency within the Malaysian ICG framework (Liestyowati, 2024; Uppal & Ullah Mangla, 2013).

Azirwan's research from 2016 to 2019 demonstrated that Sharia compliance and ownership concentration have a crucial part in shaping ICG at Indonesian Islamic banks (Azwirman et al., 2019). Conversely, Deposit Structure and Ownership Concentration were not found to have any significant impact (Harun et al., 2020). On the contrary, some authors used quantitative analysis using the PLS method exposed a positive association between ICG and MSI in Indonesian Islamic banks, with IC (iB-VAIC) positively affecting Maqashid Syariah Index (MSI) (Abd Razak, 2019; Ajili & Bouri, 2018).

Wahyuni et.al and Buallay et.al directed a wide-ranging study on IC and ICG. Their study specifically focused on the Impact of ICG confession, Islamic intellectual capital, zakat, financial performance, conformity profitability (SCNP Model), and Islamic ethical identity on sustainable business (Buallay et al., 2019; Sriyono et al., 2022; Wahyuni et al., 2023). To gather data, the researchers employed purposive sampling and convenience sampling, which are known for their effectiveness and efficiency. The study utilized a partial t-test to analyze the collected data. As a result, it was found that the only factors that significantly impact sustainable business are Islamic Intellectual Capital and ICG. According to the previous research, the authors can make hypotheses as follows:

H_1 : Intellectual Capital (IC) exerts a beneficial influence on ICG.

Scholars highlighted the significant influence of the ratio of Islamic to non-Islamic income in ICG within Indonesian Islamic banks (Shinkafi et al., 2020). In contrast, other studies indicated that this income ratio did not exhibit a notable effect (Azwirman et al., 2019). Additionally, certain authors employing quantitative analysis through the PLS method identified a negative correlation between the Islamic income and non-Islamic income ratio (NIIcR) in Indonesian Islamic banks, while also noting that IC (iB-VAIC) had a positive impact on ICG (Ajili & Bouri, 2018; Khan & Zahid, 2020). According to the previous research, the authors can make hypotheses as follows:

H_2: The proportion of Islamic income to NIIcR has a negative result on Islamic capital growth (ICG).

Mamatzakis et al. found that the attributes of profit-sharing ratios (PSR) pointedly encouragement the ICG of Islamic banks in Malaysia and Indonesia (Mamatzakis et al., 2023). In a related study, Hasan et al. studied the association among profit-sharing ratios and ICG within Sharia Banking in Indonesia, revealing that both ICG and Islamic Culture have a direct impact on profit-sharing ratios to a certain degree. Furthermore, they noted that earnings management is directly influenced by financial performance, while Islamic Culture and ICG indirectly affect profit-sharing ratios, which in turn influence earnings management (Boudawara et al., 2023). According to the previous research, the authors can make hypotheses as follows:

H_3: The PSR exerts a positive influence on ICG.

Azwirman (2019) undertook a comparative study of the Director Employee Welfare Ratio (DEWR) and the Equitable Distribution Ratio (EDR) among Islamic banks in ASEAN nations, utilizing the IPI Approach. The findings indicated that the Islamic bank in Brunei achieved the highest average ratios, thereby establishing itself as the leading institution in the region. Malaysia and Indonesia ranked second and third, respectively (Azwirman et al., 2019). In contrast, other researchers investigated the impact of DEWR and EDR on the transparency of ICG within Indonesian and Malaysian Islamic banks. Their results suggested that DEWR and EDR significantly contributed to improving transparency in the Malaysian ICG structure (Buallay et al., 2019). According to the previous research, the authors can make hypotheses as follows:

H_4: The DEWR exerts a positive influence on ICG.

Ha5: The EDR exerts a positive influence on ICG.

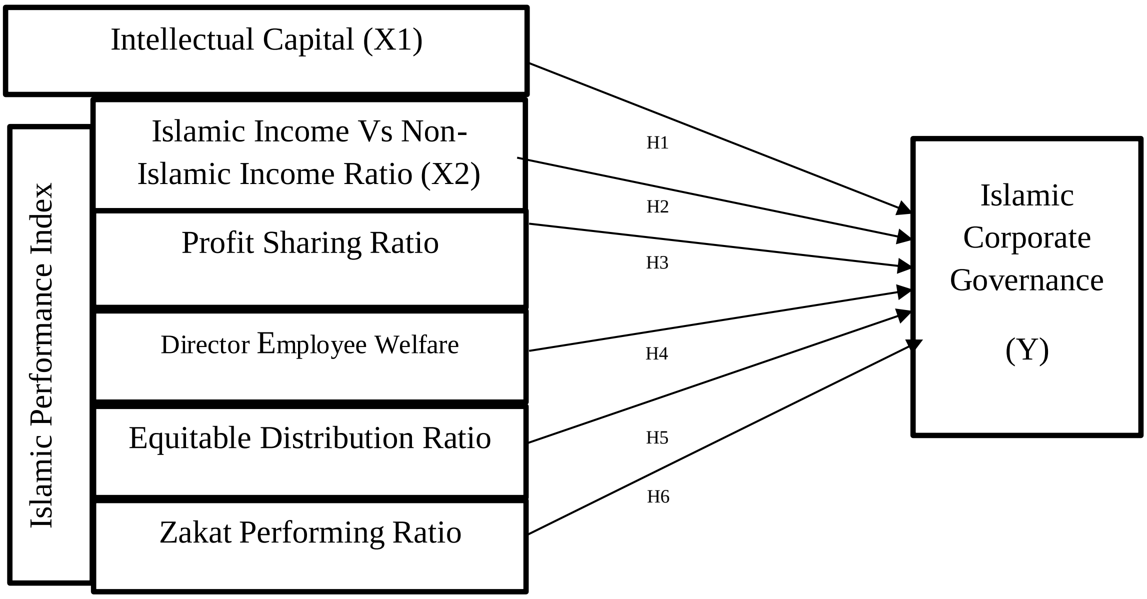
The findings of researches reveal that the zakat performance ratio has a negligible result on ICG within Islamic banks following the COVID-19 pandemic. The discoveries posit zakat is not the only determinant influencing ICG in the post-pandemic context. In Islamic banking, zakat funds are derived from two primary sources: external contributions and internal zakat allocations (Tahiri Jouti, 2019). External zakat is collected from customers and the general public, whereas internal zakat is utilized by Islamic banks for their own assets. In the aftermath of COVID-19, Islamic banks have maintained a low level of zakat contributions, with the majority of funds being sourced from charitable donations made by non-banking organizations. Additionally, there is a significant association among the volume of zakat payments and the performance of Islamic banks. Notably, certain Islamic banks in Southeast Asia do not emphasize zakat, as indicated by the insufficient information regarding zakat fund allocation in their financial statements and the difficulties encountered in acquiring such data. According to the previous research, the authors can make hypotheses as follows:

H_6: Zakat Performance Ratio (ZPR) has a positive effect on ICG

Research Framework

Therefore, based on the previous literature as well as the hypotheses, the research has a framework as follows:

Figure 1. Research Framework



3. Research Methods

A quantitative method will be applied in this study. Wijaya explained that the scheme is employed to analyze a particular population or sample. Researchers choose thequantitative approach because it allows for a broad view of social science studies, incorporating a large number of research subjects. Secondary data is used in this research, which is essentially primary data that has been processed, examined, and presented by the original data collectors or other relevant parties. Secondary data is preferred by researchers due to its reliability and its source from official banking websites. The population in this study encompasses all elements that can be utilized for drawing conclusions, focusing on Islamic banking in Southeast Asia. This region consists of 12 Islamic banks in Indonesia, 16 in Malaysia, 2 in Brunei Darussalam, 1 in Vietnam, 15 offering Islamic banking services in Singapore, 1 in the Philippines, and 1 in Thailand, totaling 33 Islamic banks in Southeast Asia. The sample is a subset of this population chosen based on specific characteristics and methodologies. The researcher obtained thesample in accordance with the specified conditions as follows:

1. Islamic banking institutions that were active and operational during the period of Covid-19 in 2020-2021.
2. Islamic banking institutions that were active and operational in Southeast Asia during 2020-2021.
3. Islamic banking institutions that have published annual reports after the Covid-19 period in 2020-2021.
4. Islamic banking institutions that have published a Good Corporate Governance report after the Covid-19 period in 2020-2021.

In light of the established criteria, a total of 16 Islamic banking institutions were recognised as appropriate samples for this research. It is important to highlight that certain Islamic banks in Southeast Asia did not furnish comprehensive reports regarding their good corporate governance, attributable to the diverse regulatory frameworks across different nations. Consequently, the researcher opted for the 16 Islamic banks in Southeast Asia that fulfilled the specified criteria. The investigation into Islamic banking in Indonesia in 2020 included 14 samples, while in 2021, the number decreased to 12 samples due to the consolidation of three Islamic banks—Bank Syariah Mandiri, BRI Syariah, and BNI Syariah—into Bank Syariah Indonesia (BSI). A merger is characterised as the process of integrating businesses through the acquisition of one or more companies, leading to the dissolution or liquidation of the acquired entity, which subsequently loses its legal status, while its operational functions are assumed by the acquiring firm. The research employed a documentation method for data collection, concentrating on the annual reports of Islamic banking institutions in Southeast Asia, particularly those that published reports following the COVID-19 pandemic (2010–2021). The analytical tool utilised by the researcher for this enquiry was panel data regression analysis, conducted using Eviews 12. This analytical method serves to assess the relationships among multiple variables through the use of panel data, and it is particularly effective in evaluating the impact of independent variables on dependent variables.

4. Results

Selection of Panel Data Regression Estimation Model

Chow Test

The Chow test serves as a method for assessing or choosing between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). It is essential to monitor the probability value associated with the cross-section F statistic. A probability value exceeding 0.05 indicates a preference for the CEM, whereas a value below 0.05 suggests the selection of the FEM.

Table 1. Chow test result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.011506	(15,10)	0.0035
Cross-section Chi-square	73.737905	15	0.0000

Source: Data analyzed by the researcher, 2023

The preceding Chow test results demonstrate that H0 is not accepted, as both the Cross Section F and Chi-square probability values fall below the significance level of 0.05. In the context of fixed effects, the model employing this approach is deemed the most suitable. Given the rejection of H0 by the Chow test, it can be inferred that the impact of IC and IPI on ICG within Islamic banks in Southeast Asia necessitates the application of the Fixed Effect Model as the optimal technique to scrutinize panel data in the Eviews software. Subsequently, the analysis will progress to the Hausman test.

Hausman Test

Hausman'sstatistical value determines whether the model is valid or incorrect. If it is lesser than the crucial value, the correct model is a random effect; if it is larger, the H0 is rejected. The two estimating models—the Fixed Effect Model and the Random Effect Model— were tested to see which performed better.

Table 2. Hausman test result

Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.878640	6	0.8239

Source: Data analyzed by the researcher, 2023

As shown at table 2, yield a statistic of 4.110502 with an associated probability of 0.8470. Given that this probability exceeds the significance level of α = 0.05, H0 is excluded. Consequently, the Random Effect Model is deemed appropriate for the estimation. This model effectively elucidates the influence of Intellectual Capital (IC) and the Islamic

Banking Performance Index (IPI) on Islamic Commercial Banks (ICG) in Southeast Asia, utilizing the Random Effect Model as the optimal approach for analyzing panel data within the EViews software. Following this, the analysis will continue with the Lagrange Multiplier Test.

Lagrange Multiplier Test

It is designed to identify the most suitable estimation model among the Random Effect Model and the Common Effect Model.

Table 3. Lagrange multiplier test result

	Cross-section	**Time**	**Both**
Breusch-Pagan	8.991267	1.014966	10.00623
	(0.0027)	(0.3137)	(0.0016)
Honda	2.998544	-1.007455	1.407912
	(0.0014)	(0.8431)	(0.0796)
King-Wu	2.998544	-1.007455	-0.225828
	(0.0014)	(0.8431)	(0.5893)
Standardized Honda	3.556038	-0.718757	-1.542055
	(0.0002)	(0.7639)	(0.9385)
Standardized King-Wu	3.556038	-0.718757	-2.074135
	(0.0002)	(0.7639)	(0.9810)
Gourieroux, et al.	--	--	8.991267
			(0.0041)

Source: Data analyzed by the researcher, 2023

It presented indicate that the Breusch-Pagan (BP) probability value of 0.0027 < 0.05, means the rejection of H0. Consequently, the findings from the LM test suggest that the Random Effect Model is the most appropriate model for this enquiry. The deduction is further reinforced by the aftermaths of three panel data regression model selection tests: the Chow Test, the Hausman Test, and the Lagrange Multiplier Test. Among these, the Random Effect Model emerges as the most precise estimation technique utilized in this research. Furthermore, the impact of Intellectual Capital (IC) and Industrial Production Index (IPI) on Islamic Capital Growth (ICG) within Southeast Asian sharia banks is effectively elucidated through the Random Effect Model, which is recognized as the optimal method for panel data analysis in the Eviews software.

Hypothesis Test

Simultaneous Hypothesis (F Test)

To determine whether a significant or insignificant relationship exists among the independent and dependent variables collectively, instantaneous hypothesis testing is employed. Upon the established testing criteria, a significant simultaneous effect is observed between the independent variable under consideration and the dependent variable as a whole if the probability is below a specified level of significance (α = 5%).

Table 4. The result of simultaneous hypothesis

R-squared	0.395878	Mean dependent var	0.868387
Adjusted R-squared	0.244847	S.D. dependent var	0.047546
S.E. of regression	0.041317	Akaike info criterion	-3.339384
Sum squared resid	0.040971	Schwarz criterion	-3.015580
Log likelihood	58.76045	Hannan-Quinn criter.	-3.233832
F-statistic	2.621178	Durbin-Watson stat	0.503293
Prob(F-statistic)	0.042477		

Source: Data analyzed by the researcher, 2023

The data presented above indicates that the simultaneous F-Statistic for the hypothesis test is 2.621178, with a probability of 0.042477, or a probability value that is lower than the significance level (α = 0.05). That is why it is established that simultaneously IC, Islamic Income vs Non-Islamic Income Ratio, Profit Sharing Ratio, Director Employee Welfare Ratio, Equitable Distribution Ratio, and Zakat Performance Ratio possess significant effects on ICG. It can be demonstrated that the amount of significance is greater than the probability (F-statistical).

Partial Hypothesis Test (t-Test)

To ascertain whether specific factors are independent or have an impact on dependent variables, partial tests are carried out, specifically IC, Islamic Income vsNon-Islamic Income Ratio, Profit Sharing Ratio, Director Employee Welfare Ratio, Equitable Distribution Ratio, and Zakat Performance Ratio can affect ICG. If the probability value is less than the level of significance, as indicated bythe test conditions. The partial outcomes of the test are displayed as follows:

Table 5. The result of the partial test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constan	0.768942	0.111326	6.907.121	0.0000
IC	0.008808	0.006203	1.419.981	0.00185
IR	0.080956	0.037650	2.927.847	0.004
PSR	0.197249	2.287.481	0.862.300	0.00391
DEWR	-0.190560	1.587.090	-0.120.069	0.9054
ERD	0.010128	0.006636	1.526.107	0.1401
ZPR	0.101468	0.108508	0.935123	0.00359

Source: Data analyzed by the researcher, 2023

Panel Data Regression Test

Panel data regression analysis provides the following regression formula when examining the impact of independent variables on the dependent variable (refer to Table 5 for the results). The following is how the regression equation is derived:

$$YICG = \beta 0 + \beta_1 ICit + \beta_2 IRit + \beta_3 PSRit + \beta_4 DEWRit + \beta_5 EDRit + \beta_6 ZPRit + e$$

$$Y = 0.769 + 0.0088ICit + 0.081\ IRit + 0.1972\ PSRit - 0.1906\ DEWRit + 0.010\ EDRit + 0.1014\ ZPRit + e$$

The Influence of Intellectual Capital on Islamic Corporate Governance

IC, recognised for its value addition and competitive edge in the bankingsector, exhibits varying effects across different institutions. Islamic banks have thepotential to enhance their financial outcomes by leveraging IC that stemsfrom employee expertise, organisational frameworks, and overall banking performance.Also, the outcomes of the initial hypothesis (H1) designate correlation between IC and ICG. This may be attributed tothe challenges associated with accurately and objectively measuring IC. Additionally, the absence of universally accepted standards and the ongoing evolution ofICG principles further hinder effective evaluation (Farooque et al., 2023). Factors such as organizational structure, leadership, and businessculture may have a greater impact on ICG than IC. Following the COVID-19 pandemic, sharia-based banking has underutilized its resources, including the knowledge and experience of employees and the corporate structure, resulting in a contribution of IC to Islamic banking.Restrictions on human resources, such as the inability to work from home, have hinderedmaximum development and potentially affected bank performance (Altin et al., 2022; Wahyuni et al., 2023).

Furthermore, intellectual capital aids in compliance with sharia regulations, facilitating the advance of innovative goods and services that encounter stringent standards. It also supports the establishment of effective sharia supervisory frameworks, ensuring operations adhere to Islamic law. Moreover, intellectual capital enhances risk management practices, crucial for maintaining Islamic financial principles. The competencies within intellectual capital help banks navigate risks, reducing the likelihood of sharia violations and promoting transparency (Shakina et al., 2017). Consequently, Islamic banks in Southeast Asia have successfully innovated various products, leading to better-quality corporate performance, augmented patron satisfaction, and a sturdier reputation for ICG. Therefore, ICG is affected by intellectual assets in Islamic banks in Southeast Asia; this may be because ICG is applied to the greatest maximum possible. ICG is already operating effectively according to compliance with relevant regulations, therefore the IC variable have an impact on it.

The Influence of Islamic Income vs Non-Islamic Income Ratio on Islamic Corporate Governance

The analysis presented in the previous section indicates that juxtaposition of Islamic income with non-Islamic incomes adversely affect ICG. The recent substantial increase in net revenue from sharia-based funds can be quantified by examining the ratio of Islamic income to Non-Islamic income. The ratio aims to completely eliminate *ribawi* activities related to *muamalat*. Islamic financial institutions are mandated to generate profits through transparent means and abstain from engaging in *haram* activities prohibited by Islamic law.

The study found no significant correlation between Islamic income and non-Islamic income on ICG in Sharia Banking in Southeast Asia during the COVID-19 crisis. This means that a decrease in the proportion of Islamic income does not unavoidably clue to a deterioration in disclosure quality. Similarly, an increase in the ratio of Islamic income does not improve the assessment of ICG (Hartini et al., 2024; Pahlevi, 2023). The lack of oversight by the Deposit Insurance Corporation in Indonesia has resulted in customer mistrust and unchecked dynamics among Islamic and non-Islamic income. Overall, the enquiry suggests that the ratio of Islamic income to non-Islamic income negatively affects ICG.

It is widely recognized that Islamic banks that derive revenue from non-Islamic sources are not aligning their operations with Islamic principles (Khan & Zahid, 2020). Thus far, income from non-halal sources has been deemed necessary. Financial statements reveal that funds from non-halal sources are channelled to other organizations through charitable institutions and public funds. Therefore, the post-Covid-19 operating revenue of Islamic banks will not positively influence the measurement of their ICG.

The Influence of Profit Sharing Ratio on Islamic Corporate Governance

In collaborative businesses, profit sharing refers to how banks and customers split earnings and losses according to a specified profit-sharing ratio that is set at the time of the transaction. Sharia banks follow the profit-sharing model, they can provide more attractive rates of return. This affects the total quantity of funds provided by third parties, as indicated by a high funding-to-profit sharing ratio. Islamic banks employ lending as a means of allocating capital to generate returns; the greater the amount of lending, the higher the profits.

The research results confirm the assertion that, in the post-COVID-19 period, the corporate governance of Islamic banking remains affected by the profit-sharing ratio. It is attributed to the detail, profit-sharing financing is prevalent in the post- COVID-19 era compared to buying and selling financial services. Consequently, the increase in revenue from profit sharing significantly enhance the ICG of Islamic banking. It is anticipated that factors such as organizational structure, leadership, and business culture have a more substantial influence on ICG than the profit-sharing ratio (Rosavina et al., 2019). The profit sharing ratio (PSR) is crucial for Islamic corporate governance (ICG) in Southeast Asian Islamic banking for several reasons. Firstly, a fair PSR reflects Islamic banks' commitment to equitable profit distribution, fostering transparency and reducing usurious practices, which enhances customer confidence—essential for effective ICG.

Additionally, PSR encourages banks to manage customer funds wisely, as profits are shared, promoting shariah-compliant investments and reducing speculative decision-making. This focus on positive outcomes improves governance quality. PSR also mitigates moral hazard risk (Mbawuni & Nimako, 2018). Unlike conventional banks that prioritize profit maximization through interest, Islamic banks must ensure successful investments since their earnings depend on customer performance, motivating better governance aligned with shariah principles.

Moreover, PSR enhances transparency and accountability by requiring clear financial reporting, allowing customers to understand their profit shares. This transparency strengthens accountability, vital for building public trust in Islamic corporate governance. Lastly, PSR is a key indicator of adherence to shariah principles. This system differs from fixed interest, which is prohibited in sharia, and instead supports the management of funds according to Islamic ethics (Azwirman et al., 2019). This shows the company's seriousness in implementing Islamic corporate governance in accordance with sharia principles.

In light of the above, the profit sharing ratio encourages Islamic banks to improve fairness, transparency and accountability, all of which are key pillars of Islamic corporate governance. This relationship strengthens the position of Islamic banks in Southeast Asia as institutions that uphold sharia principles and Islamic values in corporate governance.

The Influence of Director Employee Welfare Ratio on Islamic Corporate Governance

The ratio of Directors-Employees Welfare (DEW) measures the amount of money allocated to employee welfare compared to director salaries. This includes various benefits for employees, such as compensation, training, and other expenses related to their employment. H4 indicate that there is no correlation between ICG and the equitable welfare ratio for directors. Accordingly, it can be clinched that the H4 of this research is unsupported. Unclear employment contracts can lead to conflicts and ambiguity regarding employee welfare. Some countries still lack the necessary infrastructure and financial markets for a successful implementation of DEW (Azwirman et al., 2019). Evaluating DEW should involve more than just the proportion of directors to employees.

Factors such as director compensation and benefits, employee welfare initiatives, and employee satisfaction levels should also be considered. These elements may render DEW ineffective in supporting ICG.

ICG has been operating efficiently and in compliance with relevant regulations, indicating that it is not influenced by the DEW variable. A strong ICG will genuinely impact directors' dedication to their staff, enabling them to grow professionally and receive appropriate compensation for their contributions. ICG has the potential to affect DEW, so it is not surprising that DEW has no impact on ICG.

The Influence of Equitable Distribution Ratio on Islamic CorporateGovernance

One of the funds' distribution options offered by Islamic financial institutions is financing. Divided profits among the bank and its clients provide the funds for the profit-sharing scheme. In simple terms, financing results from a contract that the bank has with the client. One risk associated with financing distribution is the possibility of faulty financing. The findings from H5 suggest that there is no noticeable impactof equitable distribution ratios on ICG. Hence, it can be determined that the H5 analysis in this research is not supported. However, in the post-COVID-19 era, the equitable distribution ratio does not affect the adherence of Islamic banks to ICG. The study also reveals that the development of corporate governance and management remains unaffected by anincrease in the amount of money allocated to stakeholders (Abadi & Bin Annuar, 2023; Azwirman et al., 2019). This is due to the influence of other variables on ICG. Despite the impact of COVID-19, the Islamic banking industry continues toprioritize profit sharing among key stakeholders, including employees. Only a small percentage of the revenue is shared with the community and other stakeholders over a while (Buallay et al., 2019).

Determining a consistent relationship between EDR and ICG might be challenging due to variations in definitions and testing procedures of EDR. The relationship between EDR and ICG may be influenced by the company's motivations and implementation goals for ICG. EDR calculations focus on the distribution of income to clients by profit sharing, rather than only profitability for the company by itself, so companies that implement ICG only to increase profitability and do not focus on mutual welfare between the company and customers may not show a strong relationship between EDR and ICG (El-Halaby et al., 2018). Additionally, every country has its own set of regulations that overseeICG. A reputable sharia bank adheres to all ICG guidelines. Consequently, since ICG is already subject to regulations based on the country where the Bank operates, the equal distribution of compensation among employees and directors does not affect ICG.

The Influence of Zakat Performance Ratio on Islamic Corporate Governance

The Zakat Performance Ratio is a metric that calculates the zakat funded out by Islamic banks relative to their net earnings. Another of the objectives of Islamic accounting is zakat payments, as well as the amount of banking wealth, must be balancedwith large zakat payments. H6 indicated that there was association among ICG and the zakat performance ratio. Thus, it may be said that the research supports H6.

The Zakat performance ratio (ZPR) positively impacts Islamic corporate governance (ICG) in Southeast Asian Islamic banking by enhancing adherence to Sharia principles. As a key pillar of Islam, zakat reflects a commitment to social justice. When banks fulfill their zakat obligations, it demonstrates compliance with Sharia and a dedication to social responsibility, crucial for ICG. A strong ZPR boosts reputation and customer trust, as a high zakat rate shows active engagement in social welfare, enhancing credibility. Stakeholders are more likely to trust banks that uphold Islamic values and manage social responsibilities effectively (Alam et al., 2017). Additionally, ZPR promotes transparency and accountability, as banks must provide clear financial reports and zakat disclosures, ensuring responsible practices and adherence to Sharia regulations.

ZPR is able to Minimise Reputational and Ethical Risk, a good Zakat performance ratio expressions that it is not only fixated on profit but also pays attention to the social impact of its operations. This helps minimise reputational risk, which is often faced by financial institutions that lack transparency or neglect social responsibility. By complying with zakat obligations, the bank also demonstrates that it operates in line with Islamic business ethics, that enhances the quality of Islamic corporate governance (Tahiri Jouti, 2019). In addition, ZPR Supports Social Welfare and Justice, One of the foremost purposes of Islamic corporate governance is to ensure that Islamic financial institutions contribute to social welfare and economic justice. By fulfilling the social obligation of zakat, Islamic banks in Southeast Asia are contributing to wealth distribution and economic support for the underprivileged. Good zakat performance is evidence that the bank implements Islamic corporate governance not only internally but also for the welfare of the people.

Thus, a good zakat performance ratio demonstrates Islamic banks' commitment to sharia compliance, transparency, social responsibility and economic justice, all of which are key pillars of Islamic corporate governance.

5. Conclusion and Suggestion

Conclusion

Given the changes that have transpired within Islamic banks and the recognition of the importance of their policies, it becomes imperative to analyze the working conditions of these banks. Amidst the COVID-19 pandemic, Islamic banks necessity closely monitor theirbusiness's performance. The impartial of this enquiry is to assess the influence of various ratios on ICG within Islamic banks, namely the profit sharing ratio, zakat performance ratio, equitable distribution ratio, director employee welfare ratio, and IC. Consequently, it is plausible to conclude that both IC and the IPI significantly influence ICG simultaneously, as evinced by the findings of the hypothesis test.This substantiates the notion that the use of Sharia values can optimize ICG.

Suggestion

The study reveals that both IC and the IPI havesignificant impacts on ICG simultaneously. To enhance ICG, Islamic banking should focus on preserving its IC and the IPI. Additionally, Islamic banking must continuously strengthen its ICG, particularly of the ongoing COVID- 19 pandemic and global challenges. One crucial measure to boost public and shareholderconfidence is the disclosure of ICG practices.

The enquiry findings disclose that the impact of Islamic income compared to non-Islamic income on ICG within Sharia banking in Southeast Asia duringthe 2020-2021 timeframe, in the consequences of the COVID-19 pandemic, is both negative and statistically insignificant. This implies that a reduction in Islamic income relative to non-Islamic income does not adversely influence the disclosure performance associated withICG. Consequently, it is crucial to enhance the oversight of Islamic income in relation to non-Islamic income to improve the quality of the income ratio and optimise ICG.

Additionally, for the effective integration of Islamic banking into ICG, it is imperative for future scholars and researchers to establish consistency in their investigations. It is advisable for academics to pursue further studies and formulate indicators of ICG in alignment with the standards established by the Islamic Financial Services Board (IFSB) in 2022. Furthermore, to ensure that the findings of the study are appropriately generalised and to incorporate additional independent variables, the researcher advocates for an expansion of both the sample size and the duration of future research periods. By integrating the distinct characteristics and relevant factors from each country, subsequent studies can offer a more thorough evaluation of ICG within the realm of Islamic banking.

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