Chapter 1

# Driving Economic Growth Through Knowledge-Driven Corporate Governance: A Perspective of Islamic Banking Industry


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## ABSTRACT

*The main purpose of this chapter is to propose an Islamic Corporate Governance (ICG) framework for promoting economic growth in the Islamic Banking Industry (IBI). A detailed review of the extant literature indicates that good corporate gov-*



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*ernance practices improve economic performance, but there is very limited guidance available on the role of ICG in promoting economic performance in the IBI. Accordingly, by combining resource-based view and agency theories, this chapter incorporates the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards in the ICG framework to assess its implications on the economic performance of the IBI. A conceptual framework and propositions were developed to overcome the knowledge gap in the current literature regarding ICG and its role in promoting economic performance and sustainable development in the IBI. This chapter provides helpful insights to diverse stakeholder such as investors, regulators, policymakers and researchers in analyzing the economic performance of the Islamic banking industry.*

## 1. INTRODUCTION

Corporate Governance (CG) procedures have received a greater consideration in the banking and finance industry, apparently, afterward the "*Asian Financial Crisis*" (AFC) of 1997 (A. A. Jan, Lai, & Tahir, 2021). As such, the AFC of 1997 was directly linked with corporate governance practices because the financial institutions were unable to implement a robust corporate governance and lack of knowledge creation (Kamardin, 2014; Vithiatharan & Gomez, 2014). The financial crisis of 2007-2008 also shows the reflection of inefficient governance, for example, the unsatisfactory implementation of robust corporate governance practices (Peni & Vähämaa, 2012). This crisis led to the financial deterioration in various Islamic financial institutions; for instance, the financial performance of major Islamic banks like Dubai Islamic Bank, Noor Islamic Bank, and Al-Rajhi Islamic bank was badly influenced (Husna & Rahman, 2012). Considering the great importance of corporate governance, the Islamic banking industry (IBI) requires to implement robust practices of CG for the long term stability and sustainability in the world-wide financial market (A. A. Jan, Lai, Draz, et al., 2021). The IBI is growing swiftly all over the world, especially in Muslim countries, with a growth rate of 20 percent (Alqahtani & Mayes, 2018). The worldwide Islamic banking assets recorded in 2011 were worth US$ 1.3 trillion (Ben Zeineb & Mensi, 2018), which is expected to rise to US$ 7.5 trillion by 2028 (IFSB, 2025). In this regard, the execution of sturdy CG becomes vital for Islamic banking to monitor the overall operations of the industry for a strong resilience in the global financial market.

CG is defined as "*the system of rules, practices, and processes by which a firm is directed and controlled*" (A. A. Jan et al., 2025). As such, corporate governance tools are categorized into internal governance and external governance tools. This study is grounded on the internal CG tools where the most dominant internal tools