Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Influence of Board and Shariah Committee Characteristic on Takaful Financial Performance: A Systematic Literature Review

Muhammad Adam Zainudin[1], Megat Mohamed Shahrukh Akmal Megat Mohamed Kamal[2], Muhammad Nizam Haziq Yusnizam[3] & Memiyanty Abdul Rahim[4*]

[1,2,3&4] *Universiti Teknologi MARA (UiTM), Shah Alam 40450, Malaysia*
**Corresponding Author*
E-mail Address: memiyanty@uitm.edu.my

Abstract

The board of directors and shariah committee characteristics play a vital role in ensuring the effectiveness of takaful firms in term of financial performance. This paper aims to provide a systematic review of characteristics related to board and shariah committee members that can enhance the financial performance of Tafakul firms. In addition, the paper also identifies the various measurement tools used by prior studies in measuring financial performance. This paper adopted Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) and utilised two main journal databases: Scopus and Web of Science, to identify and select the articles to be analysed. Six articles have been identified and analysed systematically. As a result, the review was able to develop two main themes that are the board of directors and the shariah committee. Then, the examination of both themes contributed to the key characteristics, namely, size, non-executive directors, separation of Chairman and CEO role and Muslim member. The paper summarises the critical characteristics that significantly influence Tafakul firms' performance and describes that the empirical evidence does not provide a clear direction of the relationship. The unclear results might be due to the different cultures of the studies being conducted and included in this review. Furthermore, the method/tool used to measure Tafakul firm's financial performance in the selected articles is also different and unstandardised. As consequences, mixed and unclear results of the relationship between the characteristics of the board and shariah committee with financial performance are produced. Thus this offers some practical implications and lines for further research.

Keywords: Attributes; Board of Directors; Corporate governance; Financial performance; Shariah committee; *Takaful*

INTRODUCTION

Received: 10 January 2021
Accepted: 21 March 2021
Published: 30 June 2021

All people around the world may have experienced or are exposed to unwanted situations that can harm and lead to losses in their lives. It is because every action or decision taken by them may involve risks or consequences that may affect them, whether it is good or not. Risk can be referred to as the possibility of undesirable outcome due to the unforeseen future (Salman, Hafiz Majdi and Htay, 2015). They need to take the initiative to ensure that their living standard can be sustained and reduce the burden due to the loss. Thus, with the establishment of a takaful firm as an alternative to the conventional firm, it may provide them with the solution, especially for Muslims, and follow the guidance of shariah law and regulation. According to Kader et al. (2014), takaful firm, also referred to as Islamic firm, is a cooperative type of insurance in which insurer helps policyholders offer a service of protection against loss for each other. The members having the same experience of risks or threats and those who willingly help provide a certain amount of money that will be used to help or compensate those experiencing losses (Sharifuddin et al., 2016). In simple words, this type of insurance may provide some financial assistance to contributors involved in unforeseen circumstances leading them to higher burden and difficulties. According to Kader et al. (2014), the insurer must prevent from involving in any form of haram (forbidden) elements in insurance contracts, such as jahalah (ambiguity or uncertainty) or riba (charging interest), that are against shariah principles. Thus, takaful firms need to be concerned about their performance, especially in terms of their financial, to boost the contributors' confidence that the firms can protect them against losses.

Every company wants to become successful and able to dominate their industries. Many aspects need to be considered to achieve those things to improve their performance and remain competitive in the market. According to Olo (2009), performance measures of how well people execute their tasks or assignments. In terms of finance, it may refer to the measurements of the company's policies, activities, and operational results in financial terms. Financial performance is the extent to which it measures the condition of company financial health over time (Naz, Ijaz and Naqvi, 2016). One of the aspects that need to be concerned about is the board of directors' role within the company. According to ACCA (2012), the board of directors refers to those elected by shareholders to run its its operation on their behalf. Thus, they need to act in the best interest of shareholders by generating more profit to improve the company financial performance. This matter also applies to takaful insurance firms. The board of directors plays a vital role in ensuring their economy can be developed and gain people's trust to invest and meet the customers' demand by providing financial assistance for those who need it. Thus, sound financial performance is crucial because it shows that the company can generate profit from time to time.

Besides that, the board of directors also influence the corporate governance practices within the organisation. The Institute of Chartered Accountants (2020) defined corporate governance as the system by which companies are directed and controlled.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Effective corporate governance is crucial because it enhances the companies' financial performance and positively impacts the companies' internal efficiency in developing the economies (Tadesse, 2004). This system helps guide the directors and managers to control and decide for the companies, especially regarding a decision affecting their shareholders. From this, it can contribute to the minimisation of conflict of interest. It helps to promote transparency and disclosure to ensure that the management will not involve in improper and unlawful behaviour jeopardising company performance and affecting their shareholders. According to Jizi, Salama, Dixon and Starling (2014), corporate governance was initially introduced to ensure that the shareholders' interest can be secured. However, it has become essential for other stakeholders and society. Having the system within the company can ensure that the manager (agent) has utilised the shareholders' fund efficiently, encouraging the competitive return on their investment (Zheka, 2005).

Corporate governance is also important in takaful firms because it can ensure that participants' interests in the takaful pool are protected against the opportunistic and self-interest behaviour of shareholders and their managers. Thus, it is undeniable that the board of directors within takaful firms play a significant role because they are responsible for promoting a good corporate culture and needing to act in their shareholders' best interest and firm performance. Furthermore, as the takaful company has unique characteristics, as it complies with shariah principles. As such shariah committee also plays an important role in the operation and management of the company. The word 'shariah' refers to the direction to follow. It denotes the all-embracing legal system regulating the lives of Muslims. The underlying principle of Islamic law governing commerce and finance is the doctrine of 'permissibility', which maintains that everything in economic affairs is permitted except those explicitly forbidden by divine guidance (Kamali, 2000).

According to Bougatef (2015), Shariah Supervisory Board (SSB) is one of the main components or committee operating in Islamic financial institutions like takaful. The committee has to provide religious assurance that can encourage an effective Islamic governance system by endorsing the religious-ethical legitimacy to stakeholders. It assists takaful insurers in detecting all stakeholders' property rights and preserving the significance of contractual obligations in both explicit and implicit (Greuning and Iqbal, 2008). They will also ensure the takaful insurers comply with shariah law and jurisprudence and monitor their fiduciary obligations to various

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

stakeholders. From this, it is found that the shariah board helps to ensure the business and financial matters of takaful firms are following the Islamic law practice.

THE NEED FOR A SYSTEMATIC LITERATURE REVIEW

A systematic review can be defined as a method of critically appraising, summarising, and attempting to reconcile the evidence (Petticrew and Roberts, 2006). According to Dempster (2011), a systematic review is a comprehensive literature review different from a traditional literature review. It is conducted methodically or systematically, according to a pre-specified protocol, to reduce bias to synthesise the retrieved information for the research study. In simple words, it is a process of extracting information from research related to the reviewer's study to fulfil its objective.

Dewey and Drahota (2016) explain that a systematic literature review (SLR) is a process to categorise, choose, and critically appraise past research to find the answer to formulated questions. Using this method helps the researcher to have a plan before the reviewing process begins. SLR also offers a good advantage compared to other conventional literature reviews because it is organised and contains a transparent process. The researcher can search for past studies using several databases. Those same processes can be followed or replicated by other researchers when they conduct their systematic research. This method also covers such a strategic way of searching to help the researcher answer a defined question (Xiao and Watson, 2019). It also helps other researchers re-conduct the investigation, confirm the analysis, or study the generality by providing details about the keywords and articles used and selected for the review process (Shaffril et al., 2020).

Although it is believed that much past research discussed the factor influencing the company's financial performance, there is still lacking in the Islamic insurance (*takaful)* context. The reviewers found that this study may provide some benefits. It is interesting to review because there are limited numbers of studies related to Islamic insurance since most researchers focused on studying conventional insurance. This argument is supported by Hemitt (2019), claiming that there is only a little knowledge about Islamic insurance according to *takaful* and cooperative models. Furthermore, there is a lack of studies about the *takaful* industry because most studies have been conducted only after 2010 (Lee et al., 2019). It is hard for reviewers to retrieve relevant information from past research when conducting a systematic study.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

This SLR development is based on the main research question; do the board of directors and shariah committee attributes affect the financial performance of a *takaful* company? Thus, the researcher aims to conduct this study are to find the accurate answer for the research question by reviewing related past research to gain more knowledge and explain those attributes of the board of directors and shariah committee affecting the *tafakul* company's financial performance. This aspect is worth studying because the board of directors plays a significant role in ensuring that the company can accomplish such a good performance and generate more profit. Besides, they are involved in the day-to-day operation and management of the company. The directors' fiduciary responsibilities in takaful operators are not only limited to shareholders and policyholders, but they are also subject to oversight by the *shariah* supervisory board of the company and regulators (Nomran et al., 2018). Hence, the board attributes are worth to be examined in *takaful* company as it contains some unique characteristics. *Shariah* compliance also plays a pivotal role in *takaful*. Financial and investment issues, such as reserving, design of policy contracts, premium ratings and many more, should conform to the laws and regulations prescribed by religious doctrine (Greuning and Iqbal, 2008).

This study may help provide some benefits or contributions to the to insurance field from an Islamic perspective. For the interested parties like researchers, investors and the public, they can understand the importance of knowing board composition and shariah supervisory board because those matters can help to influence the performance of a *takaful* firm, whether it is good or not. By looking at board characteristics, such as the number of non-executive directors, board sizes, and others, investors can decide whether it is worth investing in the takaful insurance company to gain the return on investment. The company also can consider identifying which variable can help improve their performance, especially in terms of financial performance, so that it gives investors confidence to invest in the company and gain much profit through a sound investment strategy. Since the increase of the demand for shariah-compliant products or services, it is also necessary for the researcher and company to know how significant it is in the *takaful* industry. This study can also help future researchers to focus on a specific area for future studies.

So, it can be noted that this study intends to examine the existing literature on whether the board of directors and the shariah committee attributes affect the *takaful* firm's financial performance. The following section explains the methodology, particularly the PRISMA Statement (Preferred Reporting Items Systematic Reviews and

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Meta-Analysis) approach, which is used in this study. The third section systematically reviews and synthesises the scientific literature to identify, select, and appraise relevant research on the attributes of the board of directors and shariah committee towards the *takaful* firm's financial performance. The last section will discuss the priorities of future research that can help improve the SLR.

METHODOLOGY

In this section, a discussion on how the reviewers retrieved articles related to whether the board of directors and shariah committee attributes affect *takaful* firm's financial performance is presented in details. The method employed by the reviewers was PRISMA, which included the use of Scopus and Web of Science (WoS) databases as sources to find the articles for systematic literature review. The steps involved processes such as identification, screening, eligibility and data abstraction and analysis.

PRISMA

PRISMA or also known as Preferred Reporting Items for Systematic Reviews and Meta-Analyses can be referred to the format or standard of publication when conducting a systematic literature review. It help to provide a guideline for the researcher to gain a useful information that can help them to analyse the quality of a review (Shaffril et al., 2019). Besides focusing on the reporting of reviews and evaluating randomised trials, it is also suitable for research types like evaluations of interventions to report systematic reviews (PRISMA, 2015). This methodology can also help to improve the reporting of systematic reviews and meta-analyses. According to Sierra-Correa and Cantera Kintz (2015), several benefits can be offered using this method, which helps to provide a clear definition of research questions for the systematic study. It can also recognise the inclusion and exclusion criteria and examine an extensive scientific literature database at a defined time. It clearly defines the research questions towards the need for a systematic review and able to identify the inclusion and exclusion criteria for a particular study (Sierra-Correa & Cantera Kintz, 2015). The researchers can find the articles related to their systematic review by searching for accurately defined terms from the scientific literature database. Thus, articles related to whether attributes of the board of directors and the shariah committee affect the financial performance of takaful firms can be found using this method.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Resources

The method used for this SLR relied on two main databases: Scopus and WoS. The reviewers choose these two databases because they are considered a good source and offer more than 256 fields of studies, including subject related to economics, econometric and finance, business, management, and accounting and many more (Shaffril et al., 2019). It is noted that there were a total of 1,326 articles related to economics, econometric, and finance, and 1,933 articles related to business, management, and accounting in the Scopus database. Concerning WoS, there were about 108 articles related to administration and governance studies. According to Shaffril et al. (2018), WoS also provides a comprehensive backfile and citation data of 100 years in which Clarivate Analytics has established it. Concerning Scopus, it can be regarded as a more extensive database of peer-reviewed literature that consists of 41,462 articles that researchers can use for their present studies.

Systematic Literature Review Process

Identification

It is noted that there are three stages involved when searching for articles or past studies for the SLR. The first stage is identification. It can be referred to as the process in which any synonyms, related terms, or variables are used as keywords to search for past research. It has a higher possibility of being related to the present study, such as board, directors, shariah committee, takaful, etc. It could help the researchers to have more options for articles and could use it to extract the relevant information for the review. As suggested by Okoli (2015), the keywords used to find relevant articles were developed based on the present SLR's research question, online dictionaries, past studies, and keywords suggested by Scopus, WoS, the experts. Using Scopus and WoS as databases, the researchers could find relevant articles using those existing keywords, as illustrated in Table 1. As a result, 9411 articles managed to be retrieved from both databases in the present SLR.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Table 1: *The Search String Used for the Systematic Literature Review*

Databases	Keywords used
Scopus	(TITLE-ABS-KEY ("Board of directors" OR "board attributes" OR "board characteristics" OR "board remuneration" OR "characteristics" OR "attributes" OR "remuneration" OR "shariah" OR "efficiency") AND TITLE-ABS-KEY ("Takaful" OR "islamic insurance" OR "insurance") AND TITLE-ABS-KEY ("Financial" OR "finance" OR "financial performance" OR "performance"))
Web of Science	(TITLE-ABS-KEY ("Board of directors" OR "board attributes" OR "board characteristics" OR "board remuneration" OR "characteristics" OR "attributes" OR "remuneration" OR "shariah" OR "efficiency") AND TITLE-ABS-KEY ("Takaful" OR "islamic insurance" OR "insurance") AND TITLE-ABS-KEY ("Financial" OR "finance" OR "financial performance" OR "performance"))

Screening

The second stage is to retrieve relevant articles for screening. The researcher used this process to remove duplicate articles which considered irrelevant for the present research work. As a result, 30 articles have been excluded during this process. Then, the remaining 9,381 articles' screening process is conducted involving inclusion and exclusion criteria as determined by the reviewers to retrieve relevant and accurate articles for the SLR. The researchers decided to focus only on research articles because they could be considered a primary source containing empirical data with higher possibilities to have accurate information. Furthermore, the reviewers also excluded the publication in the form of a systematic review, review, meta-analysis, meta-synthesis, book series, book, chapter in a book, and conference proceeding from the current study. Not only that, articles containing or translated into the English language became the primary focus for the review. It is also important to note that the articles selected in this stage were published between 2014 to 2020. Other than that, articles related to *takaful* (Islamic insurance), board characteristics/attributes, remuneration, and shariah committee have been chosen because there is a higher possibility to be in line with the study's objective. The economics, econometric, finance, business, management, and accounting areas have been chosen to have a higher chance that the researcher could retrieve the articles related to the current research. As a result, 8,269 articles have been excluded as they did not match those criteria, as illustrated in Table 2.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Table 2: *The Inclusion and Exclusion Criteria*

Criteria	Eligibility	Exclusion
Literature type	Journal (research articles)	Journals (review), book series, book, chapter in a book, conference proceeding
Language	English	Non-English
Countries and Territories	All countries	None
Timeline	Between 2014 to 2020	<2014
Indexes	Economics, econometric, finance, business, management, and accounting	Other than economics, econometric, finance, business, management, and accounting

Eligibility

The last stage involved in a systematic review process is eligibility. The reviewers analysed and examined all the remaining 1,112 articles after screening to ensure that the articles are related and meet the current research criteria. The process required the reviewers to read all the important parts of the articles: the title, abstracts, and main content, to provide a clear understanding of whether they fulfil the current research objective. Through the process, a total of 1,106 articles have been excluded as they were not focusing on the attributes of the board of directors and shariah committee that could affect the *takaful* firm's financial performance. As a result, only six retrieved articles were considered related to the current research's criteria and objective and ready to be analysed, as illustrated in Figure 1.

Data Abstraction and Analysis

The integrative review is employed in this study. According to Whitemore and Knaflfl (2005), it can be referred to as one of the review methods involving the analysis and synthesises of all qualitative, quantitative, and mixed methods of diverse research design by transforming one type of data into either qualitising quantitative data or quantitising qualitative data. The same authors stated that using qualitative or mixed-method techniques is considered the most effective way to analyse or synthesise integrative data. It allows the research to make an iterative comparison to all the primary data sources available. The reviewers analysed all the six retrieved articles, especially in the abstract, results, and discussion sections, as they might contain the most relevant and accurate data and information. The relevant data answering the current study's research

eISSN 2600-9374

question was then abstracted and placed in a table. Subsequently, developing accurate and suitable themes and sub-themes took place by using the thematic analysis. Braun and Clarke (2006) suggested taking note of patterns and themes of specific words, then clustering, counting, noting similarities and relationships within the abstracted data that the researchers can use to identify the themes and sub-themes in the thematic analysis. Synthesising mixed research design using the thematic analysis can be regarded as the best way.

The abstracted data from all reviewed articles are examined to understand and identify the patterns or similarities between them to find suitable themes and sub-themes. Any connection or related abstracted data would be placed in a group based on the nature of the data. As a result, 21 main themes are developed. Subsequently, the researchers tried to re-examine the main themes to ensure that they were accurate and in line with the research objective. As a result, 19 main themes have been removed as they were found not to relate to the current study's objective. With the remaining two main themes, namely board and shariah committee attributes, the reviewers tried to analyse the abstracted data again to find any themes, concepts, or ideas that have connections with the main themes to develop sub-themes. As a result, two themes and six sub-themes have been finalised. Then, the reviewers started to name those main themes and sub-themes to identify them efficiently. It is important to note that the themes and sub-themes development has been done in a group discussion involving the corresponding author and co-authors. The discussion was imperative and effective because it helped provide the opinion or idea of a lack of consistencies and identify any idea or adjustment that could help improve data interpretation and make the main themes and sub-themes more accurate and efficient. After that, the expert would examine those themes and sub-themes during a presentation.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

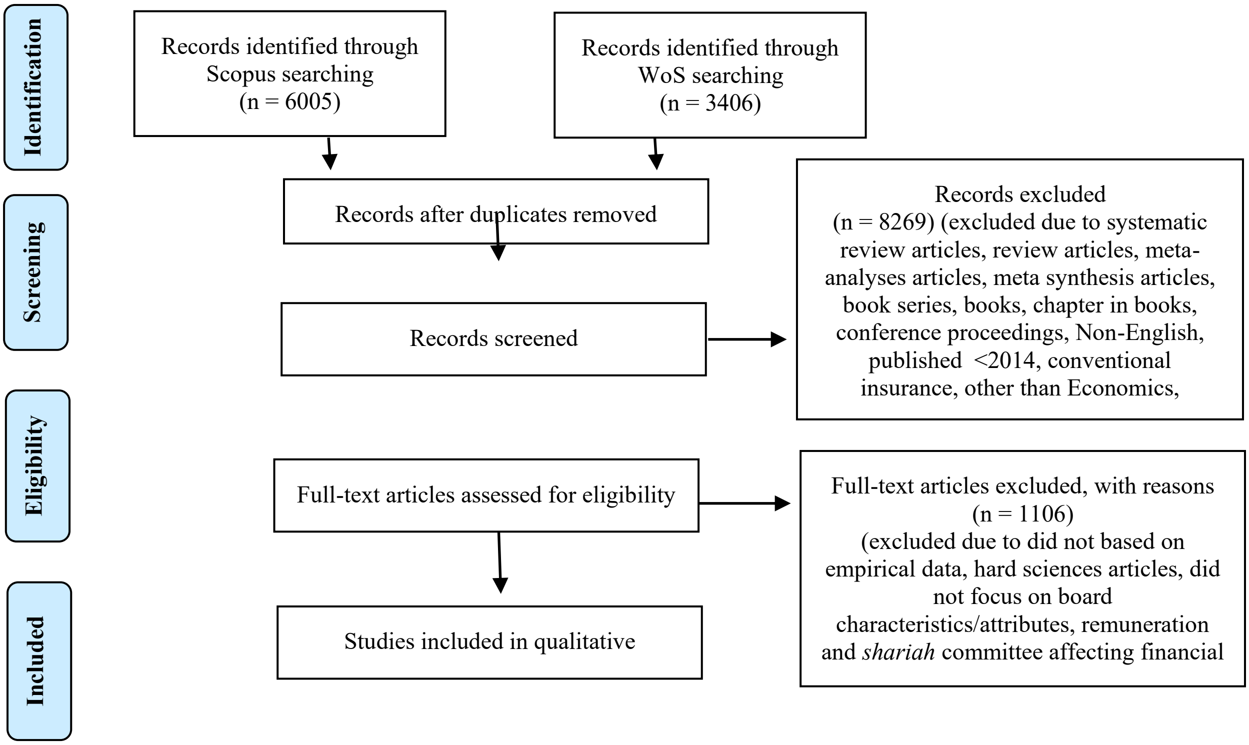

Figure 1: *Flow Diagram of The Study by Moher et al., (2009)*

RESULT

General findings and background of the studies included in the review

The research produced two main themes and six sub-themes related to the board of directors and the *shariah* committee attributes affecting the *takaful* firm's financial performance. The first main theme is the board of directors attributes, with four sub-themes. Meanwhile, the second main theme is shariah committee attributes, with two sub-themes. Next, it must be noted that, out of the six articles, Ahmad et al. (n. d.) and Lee et al. (2019) examined *Takaful* industry in Malaysia. Meanwhile, Hemrit (2019) and Akhtar (2017) focused on Saudi Arabia. On the other hand, Kader et al. (2014)

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

examined 17 Islamic countries around the world, and one Karbhari et al. (2018) focused on MENA and ASEAN. Concerning the publication year, this SLR found that two articles were published in 2019; Lee et al. (2019) and Hemrit et al. (2019). The remaining **four** articles were published in different year: Kader et al. 2014, Akhtar 2017, Karbhari et al. 2018 and Ahmad et al. (n. d.).

Main Findings

The discussion on the main findings revolves around the two main themes, which are the board of directors attributes and shariah committee attributes, along with their six sub-themes, as shown in Table 3.

Board of Directors Attributes

The board of directors' attributes are essential in maintaining the *tafakul* firm's financial performance efficiency and effectiveness. More specifically, 2/3 of the previous studies (four articles) examined the effects of the board of directors' attributes on *takaful* firm's financial performance in Islamic countries. Based on the previous studies, past researchers chose to examine some elements in the board of directors attributes that would affect a takaful firm's financial performance. The elements are the board size, the proportion of non-executive directors, CEO/Chairman separation or duality, and Muslim directors in the takaful firms (Islamic insurance company).

Board size

Board size is a part of the board directors attributes. Many people believe that there will be a significant relationship between the t*akaful* firm's board size and its financial performance. A previous study argued that a larger board size would be more effective to lead the *takaful* financial performance (Kader et al., 2014). The argument is supported by Karbhari et al. (2018), stating that the larger board size is better than the smaller board size in leading the takaful firm to achieve better financial performance. It shows a positive relationship between the company's board size and financial performance. However, the study that have been conducted by Hemrit (2019) and Lee et al. (2019) have argued that there is negative relationship between board size and *takaful* firm's financial performance. These two studies were conducted at Saudi Arabia

eISSN 2600-9374

and Malaysia, respectively. Smaller board size is better for takaful operators in Malaysia (Lee et al., 2019).

Proportion of non-executive directors

The proportion of non-executive directors in a company is also related to the company's financial performance. Nowadays, more *takaful* firms in Islamic countries have appointed more non-executive directors because they believe it will help them be more efficient and valuable. Any firms who are experiencing on a decreasing financial performance which is decreasing in return on asset with having more non-executive directors have higher probability to adverse in their financial performance as compare to the firms that only have a few non-executive directors (Perry and Shivdasani, 2005; Kader et al. 2014). However, Kader et al. (2014) showed that non-executive directors negatively correlate with *takaful* firm's financial performance. A study that has been conducted by Hemrit (2019) also shows when the number of non-executive directors monitoring the company is bigger, it may weaken the *takaful* firm's financial performance. The finding also recommended that non-executive directors need to monitor the board of directors with the skills and knowledge they have and also must ensure that the company resources will be use efficiently. This is because some of the board directors may lack of skills, knowledge, and experience with nature of the insurance company.

CEO/Chairman position

Takaful firm's financial performance may also be influenced by the CEO/chairman duality and position. Karbhari (2018) argued that the CEO's concentration of power and the role of the chair in one person provides much individual influence that could impede decision-making in the best interests of the company's minority shareholders. The return on asset and cost-efficiency of the bank in the United States of America bogged down when the same person served as the company's CEO and Chairman. The study conducted by Kader et al. (2014) also showed that CEO/chairman duality negatively affects takaful firm cost-efficiency. Some previous studies have indicated that the Chairman and CEO's separation role would benefit and strengthen the takaful firm's financial performance (Karbhari et al., 2018; Kader et al., 2014).

eISSN 2600-9374

Muslim director

Only one article examined the relationship between the Muslim board and the financial performance of *tafakul* firm from the six articles investigated. Lee et al. (2019) believed that the proportion of Muslim directors in the *takaful* firm would impact the firm performance. They also believed that Muslim directors with finance knowledge could help the takaful firm reduce and minimise the risks, such as fiduciary risk, legal risk, and operational risk. Their decision-making would also be relatable to shariah law and complaint issues that indirectly enhance the firm's good performance. The study conducted by Lee et al. (2019) in Malaysia shows that it was an inverse relationship between the proportion of Muslim directors with the board and it were due to inadequate proxy used. Overall, perhaps not many studies done in this area especially other countries, there is lack of concrete evidence to support the claim that Muslim Director can help improve the takaful firm's financial performance.

Shariah Committee Attributes

The takaful firm's financial performance may be influenced and related to shariah committee attributes. Some researchers believe that shariah committee attributes will increase the takaful firm's cost-efficiency and performance in the industry. In this case, from the six articles reviewed, several studies have focused on this theme. But only one of the six studies expanded into two sub-themes, which are shariah supervisory board and shariah supervisory board size.

Shariah supervisory board

Shariah board plays a vital role in the *takaful* insurance markets to ensure the businesses and financial matters, such as policy contract, design, premium rating, and reserve in the company comply with the Islamic law and regulation (Greuning and Iqbal, 2008; Kader et al., 2014; Karbhari et al., 2018). Mollah and Zaman (2015) stated that the *shariah* supervisory board (SSB) could be seen as a system encouraging public trust and providing credibility to Islamic insurance and industry. Kader et al. (2014) indicated that the *shariah* board could stifle both organisational effectiveness and financial results by following legal and religious enforcement goals. Based on the two studies conducted regarding SSB, both studies showed no significant relationship between SSB and takaful firms' financial performance.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Shariah supervisory board size

There was only one study, out of six studies, examining the correlation between SSB size and a *takaful* firm's financial performance. The study conducted by Hemrit et al. (2019) mentioned the SSB size as a *takaful* firm backbone to enhance society's justice and equity. SSB size, also known as the "supra-authority", has a positive effect on the success of Islamic financial institutions due to its role in protecting the key concern from corruption and acquiescence against *shariah* values (Choudhurry and Hoque, 2006). The study by Hemrit et al. (2019) showed that having a large SSB size would be a better safeguard for the policyholders and shareholders. They could avoid any illegal impermissible investment activities in the takaful.

Table 3: *Theme and Sub-themes*

Author	Board of Directors Attributes				Shariah Committee Attributes	
	BS	NED	C/C_R	MD	SSB	SSBS
Kader et al. (2014)	/	/	/		/	
Karbhari et al. (2018)	/	/	/		/	
Hemrit (2019)	/	/				/
Ahmad et al. (n. d.)						
Lee et al. (2019)	/	/		/		
Akhtar (2017)						

Notes: BS = Board Size; NED = Non-Executive Director; C/C_R = Chairman or CEO Duality; MD = Muslim Director; SSB = Shariah Supervisory Board; SSBS = Shariah Supervisory Board Size

DISCUSSION

This section further discusses the developed themes based on the PRISMA approach. The analysis of the six selected articles generated two main themes and six sub-themes. The board of directors attributes are important aspects impacting the *takaful* firm's financial performance. Under the board of directors attributes, board size is an important factor to be measured, as generally stated by Kader et al. (2014), to determine the effectiveness of corporate governance. This statement could also be supported by Pearce and Zahra (1992) finding on the corporate sector in the United States (US), stating that board size and company performance have a positive relation. In addition,

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

research on *takaful* industries found that the firm financial performance was influenced by the board size of the operating company (Hemrit, 2019; Hui et al., 2019; Karbhari et al., 2018; Kader et al., 2014). Nevertheless, there is an argument concerning whether the larger board size is more efficient for a takaful firm to achieve better financial performance. Karbhari et al. (2018) believed that a *tafakul* firm with a larger board size could get better networking, skills from their members and monitoring compared to a small board size. Nonetheless, a study conducted by Hardwick et al. (2011) found that a small number of the board of directors could reduce the conflict or disagreement among the company members. Similarly, a study done by Hui et al. (2019) found that takaful firms need to maintain a small board to improve the decision-making process, cost-efficiency and avoid the director free-rider problem.

Besides the board size, non-executive directors are also one of the board attributes affecting the *takaful* firms' financial performance. Therefore, Kader et al. (2014) affirmed a positive relationship between the efficiency of *takaful* firms and the number of non-executive directors on the company board. This statement was supported by Fama and Jensen (1983), stating non-executive directors are better at monitoring because they want to sustain their reputation in the corporate world. Moreover, it is more interesting when non-executive directors are believed to decrease agency problems and increase share values (Hemrit, 2019). Lee et al. (2019) summarised that non-executive directors might have prudent and risk aversion characteristic that might influence them to follow *shariah* guideline strictly. This study showed that *takaful* firms' financial performance is positively related to non-executive directors on the board (Hemrit, 2019; Hui et al., 2019; Karbhari et al., 2018; Kader et al., 2014). Besides, having a more significant number of external non-executive directors leads to higher financial performance (Perry & Shivdasani, 2005). Ameer et al. (2010) supported that the non-executive directors or external boards could decrease under-investment and agency problems; thus, helping company performance.

The separation of power between the Chairman and Chief Executive Officer (CEO) can also influence the financial performance of the tafakul firms. This attribute under the board of directors attributes is needed to be discussed to avoid any conflict of interest that can negatively impact the company. Thus, Pi and Timme (1993) believed that when one person serves the position of Chairman and CEO in the US banks, the return on assets and cost-efficiency will be affected. What is more, study conducted by Kader et al. (2014) found that when the position of Chairman and CEO at one person,

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

the board tend to appoint non-executive directors who are believed to follow any opinion and decision made by the CEO without questioning more about it. Research has found that Chairman and CEO duality position significantly impacts the takaful firm (Karbhari et al., 2018; Kader et al., 2014). As a result, a study on 17 Islamic countries found that 86 per cent of takaful firms would consider separating the position of chairman and CEO (Karbhari et al., 2018). In Malaysia's context, the Malaysian Code on Corporate Governance (MCCG) 2017 has also recommended that Malaysian companies separate the Chairman and CEO position to avoid conflict of interest. In addition to the board attributes, Hui et al. (2019) reported that a presence of Muslim director on the board is positively related to the company's performance. The authors further suggested that Muslim director following religious thought could avoid legal risk and fiduciary risk resulting in significant losses. Moreover, Ali and Azmi (2016) also suggested that by appointing a Muslim onto the board can help the board to understand how takaful operation better.

Further, under the second theme which explain about *shariah* committee attributes also give a positive impact towards *takaful* firm's performance. This can be explained when the operation of the *takaful* firms has being oversight by SSB in keep avoiding any forbidden elements which contrary to Islamic principle (Kader et al., 2014). Therefore, *takaful* firms only permitted to run their business without any exploitation investment, involving *haram* (forbidden) industries, business uncertainty and *riba* (usury) (Al-Suwailem, 2002). In addition, the backbone of Islamic insurance to sustaining justice and fairness is by following the religious principle and having the right size of SSB (Hemrit, 2019). Those statements are strongly supported by researchers that *shariah* committee attributes including *shariah* supervisory board and SSB size may affect firms' financial performance (Hemrit, 2019; Karbhari et al., 2018; Kader et al., 2014). Notwithstanding, under *shariah* committee attributes there are some issues regarding to board independence, this can be said when the way of board members appointed and being remunerated by the managers of takaful insurer could affect the independence of the board to voice their opinion (Greuning& Iqbal, 2008). Surprisingly, the issues of board independence are believed to be handled due to the *shariah* committee is following religious guideline and ethical legitimacy which contributing to the soundness of Islamic governance (Bougatef, 2015). Mollah and Zaman (2015) agreed that *takaful* firms with religious principle and ethical legitimacy could promote public trust; thus, attracting customer, investor, and having good financial performance (Hemrit, 2019).

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

RECOMMENDATION

From all the studies (six articles) that have been reviewed, there are several suggestions or recommendations to be highlighted. The main objective of this SLR is to study and examine whether the board of directors and shariah committee characteristics affect the takaful firm's financial performance based on the review of prior studies. One of the significant limitations of this topic, based on the searching, is the limitation in term choosing the right research term to select the articles to be included in this study. It makes it difficult for students, academic researchers, or future researchers to analyse the attributes of the board of directors and *shariah* committee affecting the *takaful* firm's financial performance. This SLR would like to suggest and encourage future researchers around the world to analyse, study, and examine this topic. This is because it able to help *takaful* firms use this as a guideline and review their financiual performance. Beside that, it also will be easier for the future generation to conduct an analysis or SLR on this topic.

Future studies on *takaful* firms in many Islamic countries are highly recommended. Each Islamic country around the world may have its *takaful* (insurance company) industry; different countries have different impacts and factors influencing their takaful industry. So, that *takaful* firms in their country will able to use this study as their references in order to create any management strategy and also to improve its financial performance. As we know, it is important for the *takafu* firms for having a good financial performance in order to increase investor confidence and its sustainability.

Lastly, it is strongly recommended for future studies to investigate more specific and more in-depth on this topic. Going deeper and more specific to this issue will result in better quality results and findings. For example, future studies can focus only on attributes either of the board of directors or *shariah* committee with the takaful firm's financial performance. Thus, by focusing solely on a few aspects, we can get more data that is more accurate with the real impact on the takaful firm's financial performance. It is hoped the recommendations will help better student learning and researcher in the future.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

CONCLUSION

Overall, this paper really aims to provide a comprehend systematic review regarding characteristics related to board and shariah committee members that can enhance the financial performance of *tafakul* firms. Apart from this, board of directors and *shariah* committee characteristics are believed to be an important aspect to ensure the effectiveness of *takaful* firms specifically toward financial performance. What is more, during conducting this paper there are various measurement tool in measuring financial performance that are used by previous studies. The adoption of PRISMA and utilization of two main journal databases: Scopus and Web of Science succeed this systematic review to develop two main themes that are board of directors and the *shariah* committee. What has been found, the critical characteristics was significantly influence *tafakul* firms' performance. Point to ponder, the empirical evidence does not provide a clear direction of the relationship and this unclear result could be said due to different cultures of studies conducted. Moreover, based on the six selected articles, method use in measuring the *takaful* firm's performance are vary and unstandardised. Therefore, result for the relationship between the characteristics of the board and *shariah* committee with financial performance are mixed and unclear. On top of that, interested parties related to Islamic finance and Islamic Insurance may use this systematic review to gain knowledge from what has been studied. Further research is recommended to focus on board of directors' remuneration as board of directors' remuneration is believed to be one of the board characteristics in impacting firm financial performance.

REFERENCES

Abdelsalam, O., Duygun, M., Matallín-Sáez, J.C., Tortosa-Ausina, E. (2014). Do Ethics Imply Persistence? The Case of Islamic and Socially Responsible Funds. *Journal of Banking & Finance 40*, 182–194.

ACCA. (2012). *Corporate Governance: The Board of Directors and Standing Committees*. 1-9.

Ahmad, N., Suriea, W, E., & Ariffin, U, N. (n.d.). Determinants of Investment Performance: Evidence from the Islamic and Conventional Insurance Companies in Malaysia. *Malaysian Journal Of Consumer And Family Economics*, 22, 24-42.

Akhtar. (2017). Performance Analysis of Takaful and Conventional Insurance Companies in Saudi Arabia. *An International Journal*, 677-695.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Ali, M. & Azmi, W. (2016). Religion in the Boardroom and its Impact on Islamic Banks' Performance. *Review of Financial Economics*, 31, 83-88.

Al-Suwailem, S. I. (2002). Decision-making Under Uncertainty: An Islamic Perspective. In M. Iqbal, & T. L. David (Eds.), Islamic Banking and Finance (pp. 15-28). Cheltenham: Edward Elgar Publishing Ltd.

Ameer, R., Ramli, F. & Zakaria, F. (2010). A New Perspective on Board Composition and Firm Performance in an Emerging Market. *The International Journal of Business in Society*, 10 (5), 647-661.

Bougatef, K. (2015). The Impact of Corruption on the Soundness of Islamic Banks. *Borsa Istanbul Review*, 15(4), 283–295.

Choudhury, M, A., & Hoque, M, Z. (2006), Corporate Governance in Islamic Perspective. *Corporate Governance: An International Review*, 6 (2), 116-128.

Dempster, M. (2011). *A Research Guide for Health and Clinical Psychology*. Hampshire: Palgrave Macmillan.

Dewey, A., & Drahota, A. (2016). Introduction to Systematic Reviews: Online Learning Module Cochrane Training. https://training.cochrane.org/interactivelearning/module-1-introduction conducting-systematic-reviews.

Fama, E., & Jensen, M. C. (1983). Agency Problems and Residual Claims. *Journal of Law and Economics,* 26, 327–352.

Greuning, H., & Iqbal, Z. (2008). *Governance Issues in Islamic Banks*. Chapter 11 in Risk Analysis for Islamic Banks. Washington, DC: The World Bank.

Hardwick, P., Adams, M. & Zou, H. (2011). Board Characteristics and Profit Efficiency in the United Kingdom Life Insurance Industry. *Journal of Business Finance and Accounting*, 38, 987-1015.

Hemrit, W. (2019). Determinants Driving Takaful and Cooperative Insurance Financial Performance in Saudi Arabia. *Journal of Accounting & Organizational Change*, 16(1), 123-143.

Hui, S. L., Fan, F. C., Wai, M. H., Md Nassir, A. & Ab Razak, N. H., (2019). Efficiency, Firm-specific and Corporate Governance Factors of the Takaful insurance. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(3), 368- 387.

Jizi, M. I., Salama, A., Dixon, R. & Stratling, R. (2014) Corporate Governance and Corporate Social Responsibility Disclosure: Evidence from The US Banking Sector. *Journal Business Ethics,* 125(4):601–615.

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

Kader, H, A., Adams, M. B., Hardwick, P. & Jean, W, K. (2014). Cost Efficiency and Board Composition Under Different Takaful Insurance Business Models. International Review of Financial Analysis, 32, 60–70. Bursa Malaysia Securities Berhad. (2018). *Bursa Malaysia Sustainability Reporting Guide 2018.*

Kamali, M, H., (2000). Islamic Commercial Law: An Analysis of Futures and Options. *The Islamic Texts Society*, Cambridge.

Karbhari, Y., Muye, I., Hassan, A. F. S., & Elnahass, M. (2018). Governance Mechanisms and Efficiency: Evidence from an Alternative Insurance (Takaful) Market. *Journal of International Financial Markets, Institutions & Money*, 56, 71-92.

Lee, H., Cheng, F., Har, W., Md Nassir, A. & Ab Razak, N. (2019). Efficiency, Firm-Specific and Corporate Governance Factors of the Takaful insurance. *International Journal of Islamic and Middle Eastern Finance and Management*, 12 (3), 368-387.

Mollah, S. & Zaman, M. (2015). Shari'ah Supervision, Corporate Governance and Performance: Conventional vs. Islamic Banks. *Journal of Banking & Finance*, 58, 418–435.

Moher, D., Liberati, A., Tetzlaff, J., Altman, D.G., The PRISMA Group, 2009. Preferred Reporting Items for Systematic Reviews and Meta-Analyses: *the PRISMA Statement. PLoS Med*. 6 (7), e1000097. https://doi.org/10.1371/journal.pmed1000097

Naz, F., Ijaz, F. & Naqvi, F. (2016). Financial Performance of Firms: Evidence from Pakistan Cement Industry. *Journal of Teaching and Education*, 81-93.

Okoli, C. (2015). A Guide to Conducting a Standalone Systematic Literature Review. *Communication Association Information System*, 37, 879-910.

Olo, O. (2009). Impact Assesstment of Corporate Culture on Employee Job Performance. *Business Intelligence Journal,* 388-397.

Pearce, J., & Zahra, S. (1992). Board Composition from a Strategic Contingency Perspective. *Journal of Management Studies*, 29, 411–438.

Perry, T., & Shivdasani, A. (2005). Do Boards Affect Performance? Evidence from Corporate Restructuring. *Journal of Business*, 78, 1403–1431.

Petticrew, M. & Roberts, H. (2006). *Systematic Reviews in the Social Sciences*. A Practical Guide. Oxford: Blackwell Publishing

Pi, L., & Timme, S. G. (1993). Corporate Control and Bank Efficiency. *Journal of Banking and Finance*, 17, 515–530.

eISSN 2600-9374

PRISMA. (2015). Welcome to the Preferred Reporting Item for Systematic Reviews and Meta-Analyses (PRISMA) website! Retrieved from PRISMA Transparent Reporting of Systematic Reviews and Meta-Analysis: http://www.prismastatement.org/#:~:text=PRISMA%20is%20an%20evidence%2Dbased,research%2C%20particularly%20evaluations%20of%20interventions.

Salman, S. A., Hafiz Majdi, A. R. & Htay, S. N. N. (2015). Takaful (Islamic Insurance): When We Started and Where We are Now. *International Journal of Economics, Finance and Management Sciences*, 3, 7-15.

Securities Commission Malaysia (2017). *Malaysia Code on Corporate Governance*.

Shaffril, H, A, M., Ahmad, N., Samsuddin, S, F., Samah, A. & Hamdan, M, E. (2020). Systematic Literature Review on Adaptation Towards Climate Change Impacts Among Indigenous People in the Asia Pacific Regions. *Journal of Cleaner Production,* 268, 1-14.

Shaffril, H, A, M., Krauss, S. & Samsuddin, S, F. (2018). A Systematic Review on Asian's farmers' Adaptation Practices Towards. *Science of the Total Environment*, 644, 683-695.

Shaffril, H, A, M., Samah, A., Samsuddin, S, F. & Ali, Z. (2019). Mirror-mirror on the Wall, What Climate Change Adaptation Strategies are Practiced by the Asian's Fishermen of All? *Journal of Cleaner Production,* 232, 104-117.

Sharifuddin, S, S., Kasmoen, N, A., Taha, N, H., Talaat, N, S, M. & Talaat, A, Z. (2016). The Concept of Takaful (Islamic Insurance) and Its Functions in the Establishment of Syarikat Takaful Malaysia; the First Takaful Operator in Malaysia. *International Journal of Humanities and Social Science Invention*, 5(2), 43-48.

Sierra-Correa, P.C. & Cantera Kintz, J.R. (2015). Ecosystem-based Adaptation for Improving Coastal Planning for Sea-level Rise: A Systematic Review for Mangrove Coasts. *Marine Policy,* 51:385–393. https://doi.org/10.1016/j.marpol.2014.09.013.

Tadesse, S. (2004) The Allocation and Monitoring Role of Capital Markets: Theory and International Evidence. *Journal Financial Quantitative Analysis*, 39(4):701–730.

The Institute of Chartered Accountants. (2020). *What is Corporate Governance*? Retrieved from ICAEW: https://www.icaew.com/technical/corporate-governance/principles/principles-articles/does-corporate-governance-matter

Vistra. (2017, May 23). Why is it Important for Companies to Have A Good System of Corporate Governance in Place? Retrieved from *The Importance of Good Corporate Governance*: https://www.vistra.com/insights/importance-

eISSN 2600-9374

Journal of Administrative Science
Vol.18, Issue 1, 2021, pp. 47 - 69
Available online at *http:jas.uitm.edu.my*

goodcorporategovernance#:~:text=Employing%20good%20corporate%20governance%20helps,with%20a%20formal%20governance%20code.

Whitemore, R., & Knaflfl, K. (2005). The Integrative Review: Updated Methodology. *Journal of Advanced Nursing*, 52 (5), 546-553.

Xiao, Y. & Watson, M. (2019). Guidance on Conducting a Systematic Literature Review. *Journal of Planning Education and Research,* 39 (1), 93-112.

Zheka, V. (2005). Corporate Governance, Ownership Structure and Corporate Efficiency: The Case of Ukraine. *Managerial and Decision Economics*, 26, 451–460.

eISSN 2600-9374