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Governance, Sukuk and Bond Performance: A Systematic Literature Review

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ABSTRACT

Bonds and sukuk have become increasingly popular as financing mechanisms for countries and organizations. However, there are mixed findings regarding the relationship between governance and sukuk/bond. It is important to understand how governance can affect sukuk and bond and provide suggestions for decision makers for financing method. This study aims to review the literature related to governance and performance of bond and sukuk (issuance and yield). The review complied with the Reporting Standards for Systematic Synthesis of Evidence (ROSES). Keywords related to sukuk, bonds, performance, and issuance were used to gather articles from Web of Science (WoS) and Scopus. After a rigorous selection and filtering process, a total of 30 articles were included in this review. The main findings show the influence of governance mix on sukuk/bond performance. There has been a marked increase in articles, particularly those focusing on listed companies. Agency theory dominates the literature, and the Ordinary Least Square (OLS) method is often used as an analytical tool. It has been noted that studies that include different types of governance, such as institutional and corporate governance in one framework, are limited. Thematic analysis revealed seven main themes with 27 sub-themes. The main themes include institutional governance, corporate governance, shariah governance, bank/firm specific, industry specific, country specific, and others. Institutional and shariah governance are the least examined while corporate governance received most of the attention. The results suggest mixed results regarding the impact of firm-specific, industry-specific and country-specific variables on sukuk/bond performance. More empirical studies of Shariah and institutional governance are needed in different location and using different population such as banks, financial, and non-financial organizations. A comparison between the three layers of governance and their effects on sukuk and bond performance can be a fruitful direction of future work.

Keywords: ROSES; Corporate governance; Institutional governance; Shariah governance; agency theory

INTRODUCTION

Companies deploy several methods to acquire or borrow from the market. One of the emerging method is to issue bond. This method is well established in the Western context. Creditors provide the fund hoping to gain additional income from the interest rate or the return on bond (Bunte 2019). Since 2014, bond has grown with an average of 4.6%. As shown in Figure 1, the bond issuance either by sovereign or corporation has increased. Figure 1 shows the bond issuance between 2010-2020. As of April 2023, International Capital Market Association (ICMA) estimates that the overall size of the global bond markets equivalent notional outstanding, is approximately USD133 trillion. This consists of USD90.1 trillion sovereign bonds (68%) and USD42.9 trillion corporate bonds (32%). The market leader for bond issuance is the US with almost USD51 trillion while in the sukuk, the market leader is Malaysia with almost 49.3% of sukuk issued by Malaysia (International Islamic Financial Market (IIFM) 2021).

The issuance of sukuk is based on shariah law which monitor by a shariah governance and corporate governance as well as institutional governance. Shariah governance is "the set of institutional and organisational arrangements through which an Islamic Financial Institution ensures that there is effective independent oversight of shariah compliance" (Radzi & Muhamed 2012b) while corporate governance is the structure of rights and responsibilities between stakeholders (Turlea et al. 2010) and institutional governance is the respect of the state and citizens of institutions that govern interactions between them (Asongu 2016). The shariah law prohibited the *riba* (interest). This has led companies to issue an Islamic bond which known as sukuk, and it complies with the shariah law (Uddin et al. 2020). Number of sukuk among Muslim countries are increasing. The sukuk market, in particular, has grown dramatically in recent years, from less than $8 billion in 2003 to $50 billion by 2007 and reached $174 billion in 2020 (Said & Grassa 2013; Smaoui & Khawaja 2021). In 2021, market capital of sukuk accounts to $1.42 trillion (IIFM 2021). Sukuk growth by countries is shown in Figure 2. Nevertheless, even in Muslim countries the size of sukuk is still relatively lower than the bond. The number of bond issued is higher than the sukuk between 2009-2018 as shown in Figure 2.

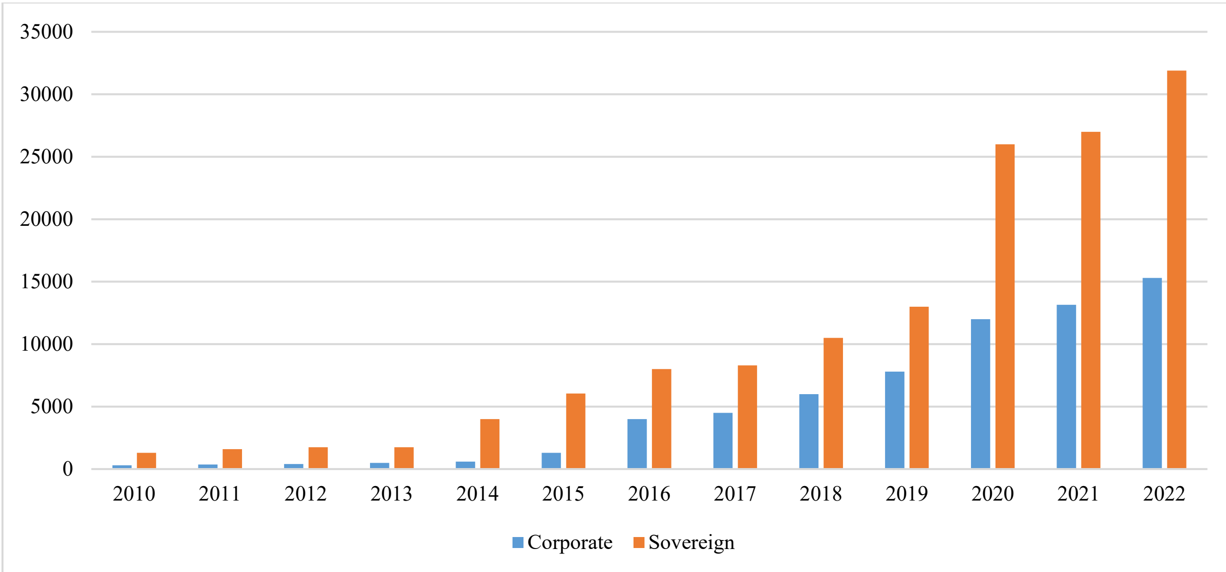

FIGURE 1. Global bond issuance between 2010-2022
Source: International Capital Market Association (2023)

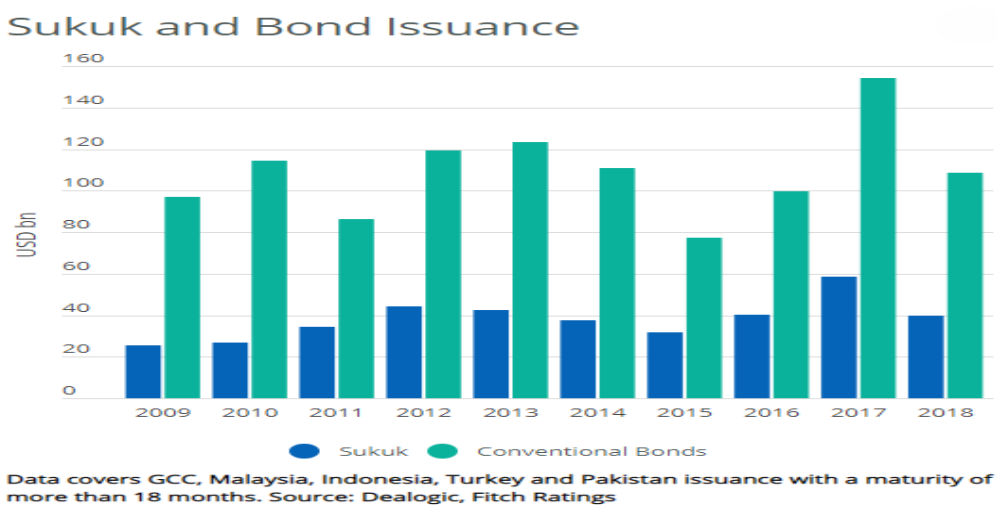

FIGURE 2. Global bond and sukuk issuance

Average growth rate of sukuk were steadily at rate of 25.0% since 2001 (IIFM, 2021). The sukuk market traditionally dominates in Muslim countries particularly in Malaysia (49.30%), Saudi Arabia (20.10%), United Arab Emirates (7.40%), Indonesia (11.90%), Qatar (1.98%), Bahrain (1.58%), Pakistan (1.61%), Turkey (2.55%), Oman (1.05%) and Kuwait (0.27%). Based on region, the largest region is Southeast Asia and the Gulf Corporate Council (GCC) with percentage of the Southeast Asia (78%) and in GCC (15.23%) of the sukuk market (IIFM 2021). Sukuk growth by selected dominant countries and regions is shown in Figure 3.

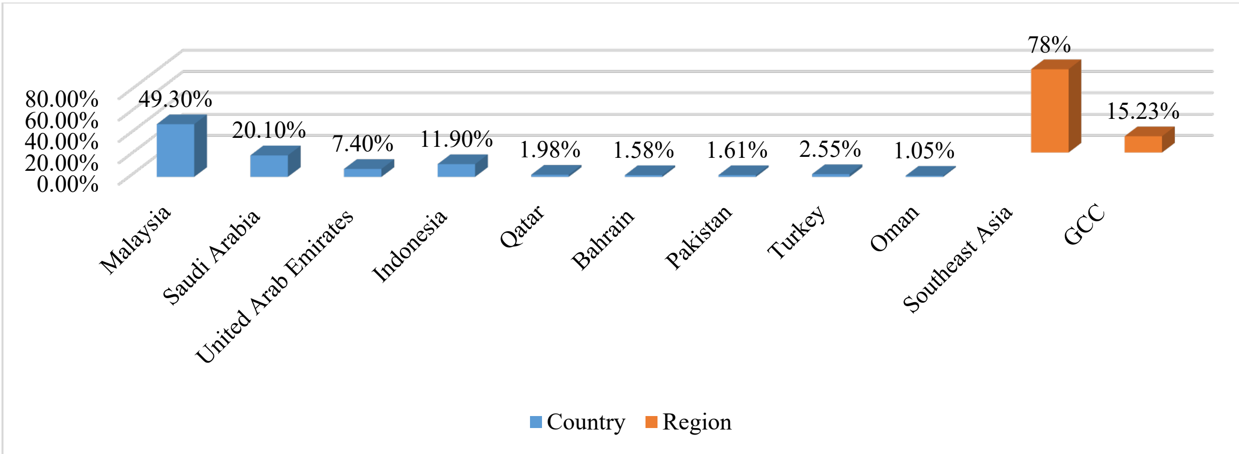

FIGURE 3. Dominance of Sukuk Issuance between 2001-2020 (IIFM, 2021)

Sukuk issuance is used by previous studies as an indicator of the performance of sukuk (Ashraf et al. 2021; Grassa & Miniaoui 2018). The issuance of sukuk, which also represents its performance, is believed to be related to several predictors. One of the important predictors is the governance (N.M. Saad et al. 2018). The governance-related issues concerning sukuk and bonds are typically analyzed from four perspectives: transparency and disclosure, regulatory challenges, default, and ethical considerations. First, due to the asset-backed nature, sukuk structures can be intricate. This complexity requires greater transparency and robust disclosure to ensure that all stakeholders are aware of the risks and rewards associated with the underlying assets. Meanwhile, bonds can be straightforward, although the global diversity in bond structures and the use of derivatives can sometimes make them just as complex as sukuk. Second, with regard to regulatory challenges, sukuk must be in compliance with Shariah law. An independent Shariah board often reviews and certifies sukuk structures. However, interpretations of Shariah can vary, leading to inconsistent rulings and regulatory ambiguities. Unlike sukuk, the regulatory framework for bonds is typically more standardized, focusing primarily on credit risk, liquidity risk, and market risk. Third, in terms of default, as sukuk holders have an ownership interest in the underlying asset, the handling of default can be more complicated. The asset might need to be sold or restructured, and the proceeds will then be distributed among the holders. In contrast, in an event of default, as bondholders are creditors to the issuer, they have a claim on the issuer's assets, but they do not have direct ownership of any specific asset. Finally, with respect to ethical considerations, the emphasis on ethical investments and the prohibition of industries like gambling and alcohol ensures that sukuk align with certain social and moral values. Whereas, bonds do not inherently possess these ethical constraints, though there is a growing trend in the bond market towards "green" or "ethical" bonds.

In the nuanced landscape of governance, scholars delineate several distinct typologies. These encompass institutional governance, which pertains to the overarching frameworks and conventions governing institutions; corporate governance, focusing specifically on the internal mechanisms, systems, and relationships steering corporations; and Shariah governance, which underscores the Islamic jurisprudential principles and their operationalization within financial and other institutions. Each of these categories serves as a crucial pillar in understanding the multifaceted nature of governance in varied contexts. Prior literature found that weak governance can encourage the issuance of bonds or sukuk due to the notion that weak regulatory encourages the issuance of bond/sukuk, but discourage investors from trading these financial instruments (Dutordoir et al. 2014). On the other hand, strong governance is an effective tool to reduce the risk of issuing bond and sukuk because it enhances the shareholders, stakeholders, investors, and bondholders' right as well as build up confidence to the issuers (Blazy et al. 2012).

The literature on sukuk/bond performance also touch the aspect of effectiveness. For instance, sukuk/bond development and growth as well as the yield, abnormal return, and performance of sukuk and bond were examined in the reviewed studies. Researchers found that ownership right has a positive role in mitigating risk of sukuk but not conventional bonds (N.M. Saad et al. 2016). Also, tenure and GDP has positive effect on bond and sukuk (yield of sukuk and bond). Meanwhile, sustainable growth has negative effect on sukuk and positive on bond (N.M. Saad et al. 2016). As there is no agreement in the literature in terms of the role of governance and other variables on the performance of sukuk and bond, the main research objective of this study is to systematically review the literature on how have prior studies interpreted the influence of governance on bonds and sukuk performance. Furthermore, an ancillary inquiry seeks to identify existing research gaps and propose avenues for future research.

The next section discusses the remaining of this paper. In particular, a summary of the reviewed studies, followed by research methodology, scope of the research, sampling and data collection as well as the data analysis, conclusion and recommendation are discussed.

RESEARCH METHODOLOGY

There are several method and techniques to review the literature systematically, among which ROSES which stands for Reporting standards for Systematic Evidence Syntheses (ROSES) is more preferred because it presents easy and clear steps to conduct the literature review (Haddaway et al. 2018). ROSES provides transparent and comprehensive method to report the findings of the literature (Haddaway et al. 2018).

ROSES PROTOCOL

A set of guidelines called ROSES has been developed for systematic reviews and maps. These guidelines are meant to serve as prompts for researchers so that they provide only the most relevant and up-to-date information to practitioners (Haddaway et al. 2018). The process starts with the development of relevant research questions and continues with the use of systematic search techniques (identification, screening, and eligibility), the evaluation of the quality of the articles chosen, data abstraction, and analysis.

RESEARCH QUESTION

Based on the recommendations from Shaffril et al. (2020), this study uses the Population, Interest, and Context (PIC) technique as the basis for formulating research questions. The choice of PIC is influenced by its directness, as highlighted by Ystaas et al. (2023). Using this technique proved to play an important role in formulating the main research question "What are the findings of previous studies regarding the impact of governance on the performance of bonds and sukuk across different countries? Additionally, a supplementary question aims to highlight the gaps and suggest directions for future research. The three main aspects of PIC are investors (Population), the role of governance (Shariah governance, corporate governance, and institutional governance) (Interest), and the countries (context).

SYSTEMATIC SEARCHING STRATEGIES

IDENTIFICATION

This study systematically reviews the literature that is related to the governance, sukuk/bond performance. The first step was to identify the keywords that will be used to search for articles (Haddaway et al. 2018). A query that includes all the important keywords were used. The query is (("governance") AND ("bond*" OR "sukuk*") AND ("performance" OR "growth" OR “issuance”)). These terms were used to search for articles in Scopus and Web of Science (WoS). The use of these two databases is based on the notion that most of articles related to the bond, sukuk, and governance are published by these databases. The search of the articles has resulted in 159 articles from Scopus and 119 articles from WoS.

SCREENING

The scope of this study includes articles that have been published between 2010 and 2021. The choice of this timeframe is based on the notion that governance has increasingly become important after 2009 which is the year of the financial crisis and most of countries started implementing the governance in the aftermath period of 2009 (Sawalqa 2014). Worldwide, the code of governance was introduced in 2004 by OECD Principles of Corporate Governance. However, most countries started developing and implementing their own code of governance after 2009 (Sawalqa 2014). Thus, the articles searching was limited to this timeframe period.

The duplicated articles which are articles that are indexed in Scopus and WoS were excluded. This has resulted in 259 articles for screening process. A total of 204 were excluded due to inclusion criteria which includes empirical articles published between 2010-2021 in English. The exclusion of articles was also related to the scope which was pertaining to articles that have been published in management, governance, business and finance. The article also limited to English language articles that are already published. In press articles or early cite articles were excluded due to the fact that changes still can be made to these articles.

ELIGIBILITY

The authors performed this step by reviewing each article's title and abstract to verify that the remaining articles met the criteria after the first screening procedure. The selection procedure 20 publications for various reasons, including a lack of empirical research and a focus on topics other than sukuk/bond. As a results, out of the 55 remaining articles, only 35 met the inclusion criteria.

QUALITY APPRAISAL

In order to determine the quality of the content of the 35 articles we chose, we submitted them to a panel of three specialists in governance studies with PhD degree and publication in the field. This is to have an independent view regarding the quality of the articles. Based on the research methods used, the publications are ranked as high, moderate, or poor quality (Petticrew & Roberts 2006). It is recommended that only high and moderate quality publications be assessed, with the caveat that all authors involved in the review process must reach a consensus on which articles will be evaluated. 17 articles were given high marks and 13 were given moderate marks in this method. A total of five articles were given low quality and they were removed from the review. The exclusion was based on the relatedness of the articles to the governance and sukuk/bond performance as well as the structure of the articles. This has resulted in 30 articles that have met the criteria for assessment which related to the suitability of the articles to the topic of this study. As shown in Figure 4, the eligible articles were filtered. Based on several exclusion criteria which are also the scope of this research.

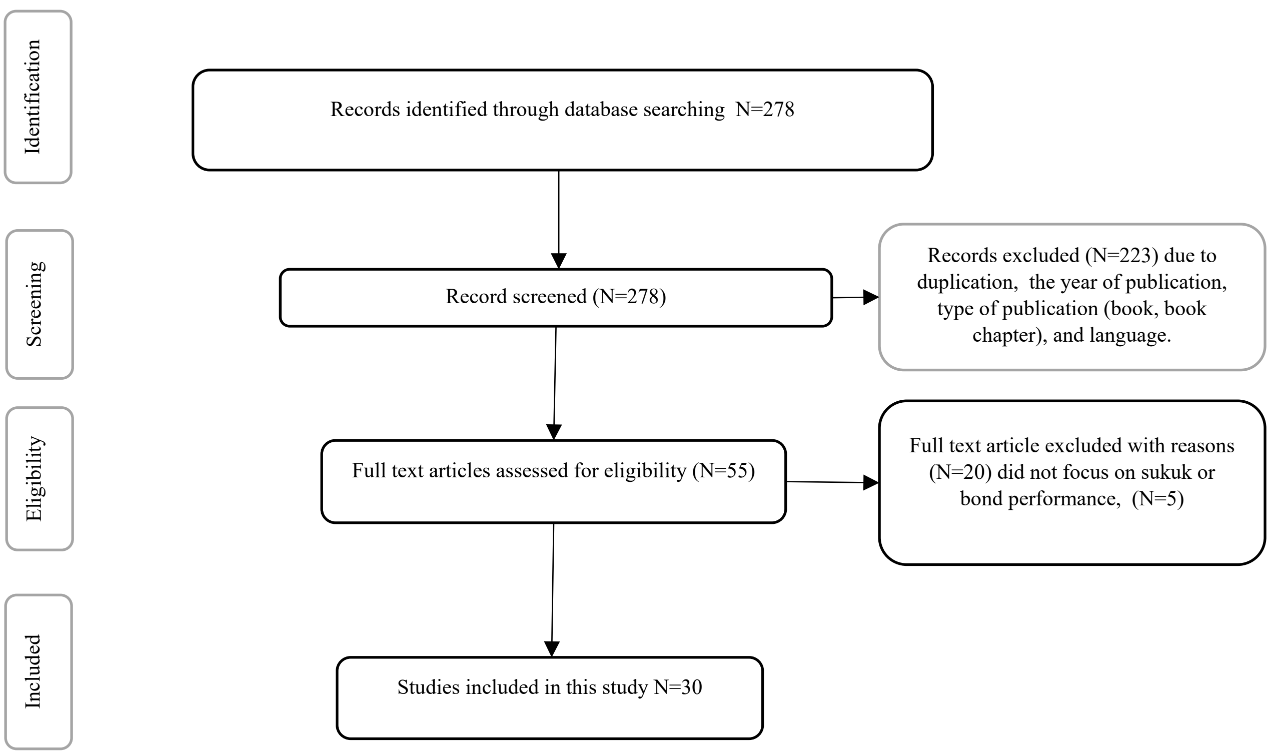

FIGURE 4. Process of selecting the reviewed articles

DATA ABSTRACTION AND ANALYSIS

After carefully reading the abstract, results, and discussion sections of all 30 papers, we abstracted data and conducted theme analysis. To do data abstraction, relevant information is gathered from many sources and organized in a tabular format to answer the research questions. Braun and Clarke (2006) define thematic analysis as "the process of discovering themes and sub-themes based on counting, grouping, patterns and similarities, and relationships within the abstracted data”. We used a three-pronged approach to develop the overarching themes and underlying concepts. Before combining the 30 papers into a single set, each one was analyzed individually to look for commonalities among the abstracted data included inside. We identified seven overarching themes, from which 29 secondary themes emerged. Second, we double-checked these themes to make sure they accurately reflected the data and would be relevant moving forward. During this procedure, we eliminated two sub-theme one is related to industry specific (listing) and other is related to CG specific variable (audit committee). This is because these sub-themes were not used. Seven overarching themes and 27 supplementary topics emerged from the review as a result. Third, we submitted the themes and subthemes to a panel of three subject matter experts for approval. The experts agreed on the emerged theme and sub-theme.

FINDINGS

This section discusses the background of the reviewed articles as well as the thematic analysis of the articles.

PUBLISHING JOURNALS

The articles extracted from Scopus (11) and WoS (19). Number of the journals that have published the topic that are related to this paper is 30 with the highest frequency of three from the *Journal of International Financial Markets, Institutions and Money* and two from the *Pacific Basin Finance Journal.* Number (no.), classification of articles, name of journals and frequency of each journal is shown in Table 1.

TABLE 1. Frequency of journals

No.	Classification	Name of Journal	Frequency
1	WoS (Q1)	Journal of International Financial Markets, Institutions and Money	3
2	WoS (Q2)	Pacific Basin Finance Journal	2
3	WoS (Q2)	Sustainability	1
4	Scopus (Q2)	Applied Economics	1
5	Scopus (Q3)	Journal of Economics and Finance	1
6	Scopus (Q2)	Journal of Asian Finance, Economics and Business	1
7	WoS (Q1)	European Journal of Law and Economics	1
8	WoS (Q1)	Journal of Banking & Finance	1
9	WoS (Q2)	Quarterly Review of Economics and Finance	1
10	WoS (Q1)	Journal of Business Ethics	1
11	WoS (Q1)	Journal of Corporate Finance	1
12	Scopus (Q2)	International Journal of Islamic and Middle Eastern Finance and Management	1
13	WoS (Q2)	Journal of Multinational Financial Management	1
14	Scopus (Q3)	Review of Accounting and Finance	1
15	WoS (Q1)	International Review of Financial Analysis	1
16	WoS (Q2)	International Review of Economics and Finance	1
17	Scopus (Q3)	Pacific Accounting Review	1
18	Scopus (Q4)	Etikonomi: Jurnal Ekonomi	1
19	WoS (Q1)	Strategic Management Journal	1
20	WoS (Q1)	Emerging Markets Finance and Trade	1
21	WoS (Q1)	Corporate Social Responsibility and Environmental Management	1
22	Scopus (Q2)	Borsa Istanbul Review	1
23	WoS Proceeding	Procedia Economics and Finance	1
24	Scopus (Q3)	Jurnal Pengurusan	1
25	Scopus (Q3)	Studies in Economics and Finance	1
26	Scopus (Q3)	Qualitative Research in Financial Markets	1
27	WoS (Q2)	International Journal of Finance and Economics	1

YEAR OF PUBLICATIONS

The year of publication of articles is shown in Figure 5. It shows that number of articles is in an increasing trend. The number has increased gradually from 2010 onward to reach the highest number in 2019-2020. Number of articles in 2021 is small and this could be due to the selection of articles and the time of conducting this review study. Figure 5 shows the year of publication.

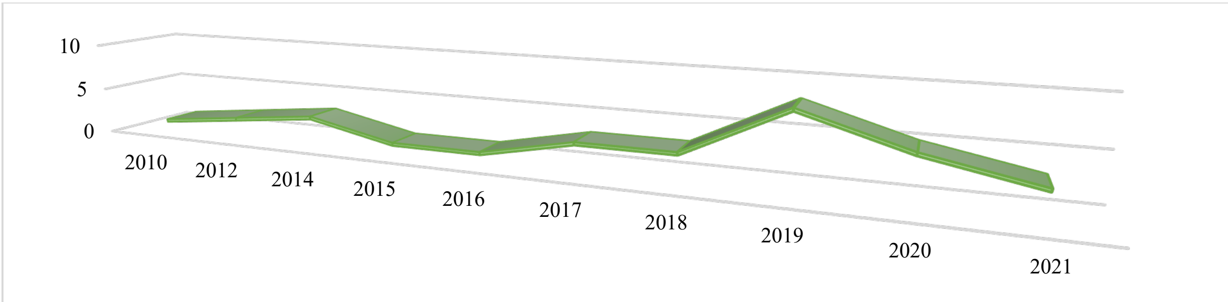

FIGURE 5. Year of publications

CLASSIFICATION

The reviewed articles can be classified into Scopus and WoS. As mentioned earlier, 12 of the articles from Scopus and they are divided into Q2 (4), Q3(6), and Q4 (1). WoS articles accounted to 18 articles and include also Q1 (11), Q2 (7), Q3 (1). Figure 6 shows the distribution of articles based on the databases and quartiles (Q).

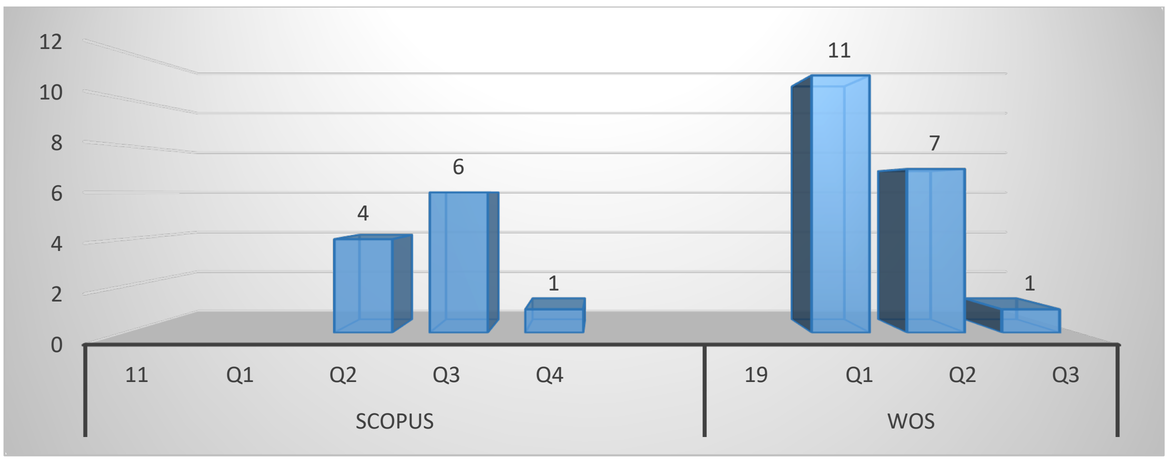

FIGURE 6. Distribution of articles based on database and quartiles

DISTRIBUTION BASED ON COUNTRIES AND CONTINENTS

The articles were conducted in several countries. Since sukuk is an Islamic product and Malaysia is the pioneer of this product, the number of articles from Malaysia accounted to 20% of the reviewed articles followed by US for the bond articles with 10%. China, Indonesia, and Japan accounted for 7% for each while France and UK has 3% for each. The largest percentage of articles is a multi-countries or cross countries with 43%. In term of economic classification, 38% of articles were conducted in developing countries while 19% were conducted in developed economies. Figure 7 shows the distribution of articles based on countries.

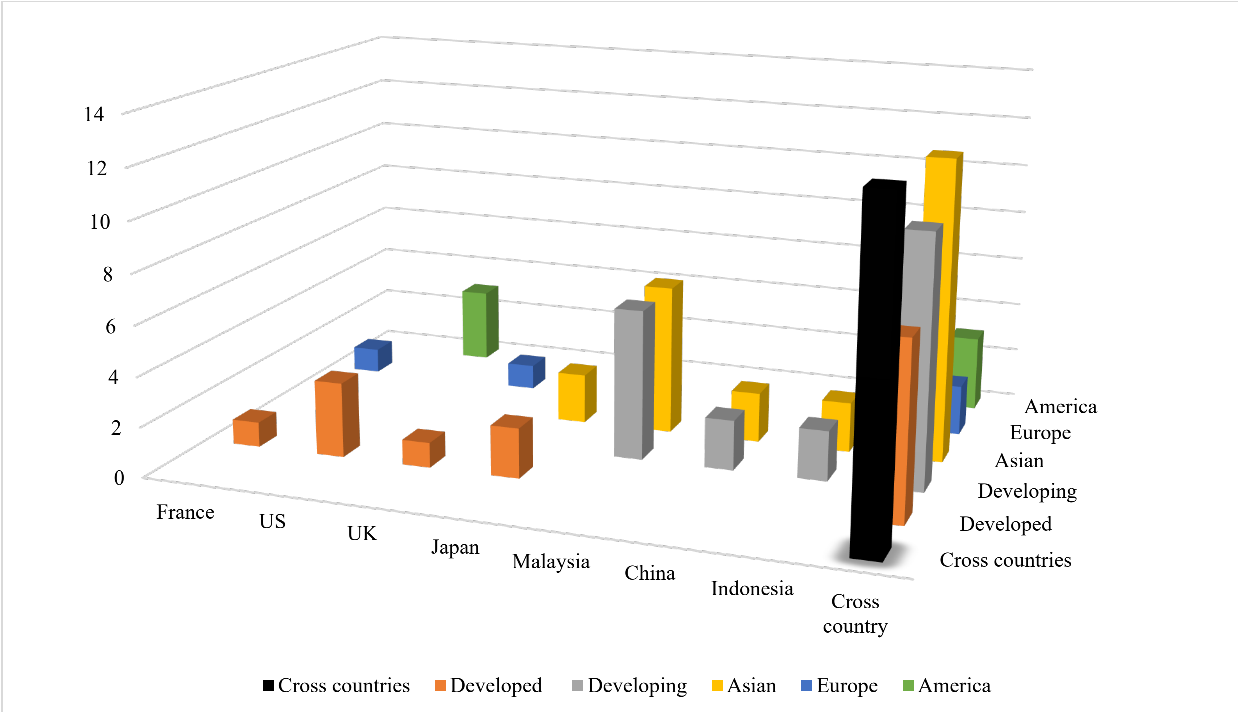

FIGURE 7. Distribution of articles based on countries

THEORETICAL FRAMEWORK

Theories that have been deployed to support the development of conceptual frameworks are shown in Table 2. It shows that the highest number of articles deployed the agency theory. This is logical since the study is examining the effect of governance on the performance of sukuk/bond. Agency theory is one of the essential theory in the context of governance. In addition, the second widely used theory in the literature is the capital asset price (CAP). This theory is mainly related to the pricing of assets and to estimate the return on sukuk/bond. Other theories were used marginally in the literature such as the transaction cost economies, resource dependence theory, value relevance theory, asset pricing theory, bond pricing theory, portfolio theory, and law and finance theory. Half of the reviewed studies did not use a theory.

TABLE 2. Theories Used in Governance-Bond/sukuk Performance

Theory	Frequency	Author year
Portfolio Theory	1	(Drut 2010)
Law and Finance Theory	1	(Blazy et al. 2012)
Capital Asset Pricing Theory	1	(Sivaprasad et al. 2014)
Agency Theory and Transition Cost Economies.	1	(O'Brien et al. 2014)
Resource Dependence Theory and Agency Theory	1	(Nadeem et al. 2017)
Agency Theory and Stakeholder Theory	1	(Elhaj et al. 2018)
Value Relevance Theory	1	(Qizam & Fong 2019)
Agency Theory		
Asset Pricing Theory	1	(Uddin et al. 2020)
Agency Theory	6	(Ashraf et al. 2021; Esqueda & Jackson 2015; Liu et al. 2019; N. Saad et al. 2020; N.M. Saad et al. 2016 2019)
Bond Pricing Theory	1	(Balli et al. 2021)
No theory	15	(Chen 2012), (Dutordoir et al. 2014), (Park 2017), (Crifo et al. 2017), (Basyariah et al. 2021), (Nurohman et al. 2020), (Balli et al. 2020), (Sukmana 2020) (Badía et al. 2019), (Pereira et al. 2019), (Nakabayashi 2019), (Afonso & Tovar Jalles 2019), (Meng & Yi 2019), (Margaretic & Pouget 2018), (Lian 2018)

STATISTICAL ANALYSIS TECHNIQUE

Several analytical techniques were deployed in the literature. Mainly the literature of governance, sukuk, and bond is dominated by Ordinary Least Square (OLS), which is a technique is used to analyze the hypotheses. Other techniques that have been used is Generalized Method of Moments (GMM). Pooled OLS and other techniques were used also as shown in Figure 8.

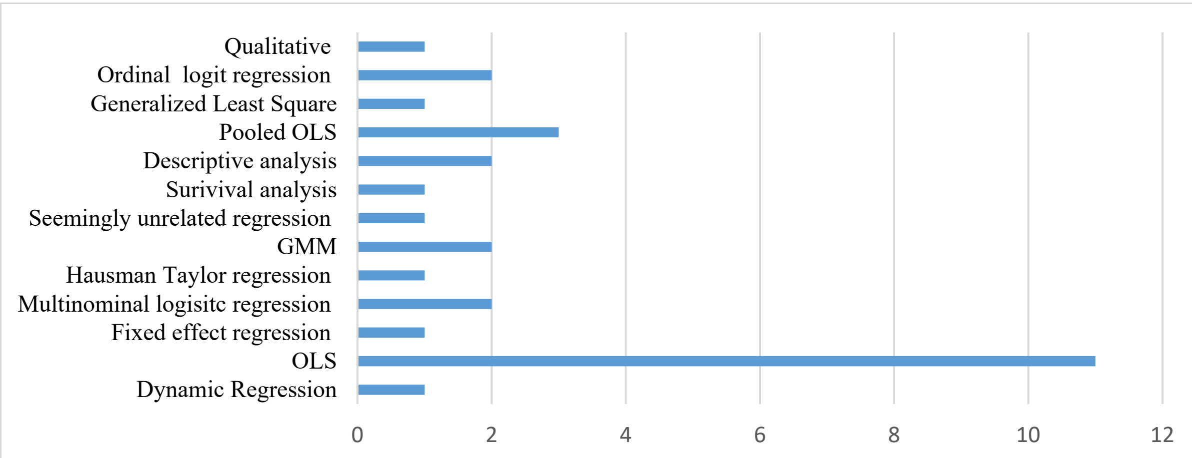

FIGURE 8. Data analysis techniques

THEMATIC ANALYSIS

The thematic analysis was conducted by creating main and sub-themes. The main themes as shown in Table 3 are divided into seven themes with 27 sub-themes. The seven themes are institutional governance (IG), corporate governance (CG), shariah governance (SG), bank specific, industry specific, country specific, and others. The inclusion of the governance themes (IG, CG, SG) is to answer the main research questions by understanding the impact of each type of governance on sukuk and bond performance while the inclusion of other themes (bank specific, industry specific, country specific and others) to understand the variables that have been used in the governance context to predict the sukuk/bond performance. The sign ✓ in Table 3 indicates that the variable is mentioned in the study and examined.

TABLE 3. Thematic analysis

Author	IG						CG				SG			Bank/firm specific				Industry Specific		Country Specific				Others			
	RL	GE	CC	VA	RQ	PS	BOD	O	CEO	SR	SSB	SD	SB	LE	S	L	FR	G	p	E	ER	GDP	IN	SR	LT	GP	CRA
(Drut 2010)																								✓			
(Park 2017)	✓													✓							✓	✓	✓				
(Margaretic & Pouget 2018)		✓																		✓		✓	✓	✓			
(Meng & Yin 2019)	✓	✓	✓	✓											✓	✓	✓					✓	✓		✓	✓	
(Basyariah et al. 2021)	✓	✓	✓	✓	✓	✓															✓	✓	✓				
(Ahmed et al. 2018b)											✓	✓															
(Ahmed et al. 2018b)											✓		✓														
(Blazy et al. 2012)								✓		✓																	
(Chen 2012)	-						✓	✓	✓						✓	✓	✓										✓
(Sivaprasad et al. 2014)																	✓										
(Dutordoir et al. 2014)							✓	✓	✓	✓						✓	✓										✓
(O’Brien et al. 2014)								✓							✓	✓		✓	✓								
(Esqueda & Jackson 2015)								✓							✓	✓											
(N.M. Saad et al. 2016)								✓							✓			✓				✓	✓				
(Crifo et al. 2017)																				✓		✓	✓				
(Elhaj et al. 2018)							✓		✓						✓	✓	✓										
(Lian 2018)							✓	✓	✓						✓	✓	✓										✓
(Liu et al. 2019)							✓	✓	✓		✓				✓				✓								✓
(Badía et al. 2019)								✓							✓		✓							✓			
(Pereira et al. 2019)															✓							✓		✓			
(Nakabayashi 2019)								✓	✓								✓					✓					
(Afonso & Tovar Jalles 2019)																✓									✓	✓	
(N.M. Saad et al. 2019)							✓	✓	✓						✓	✓	✓	✓				✓					

(Qizam & Fong 2019)																	✓								✓		
(Sukmana 2020)								✓	✓								✓				✓	✓	✓				
(Uddin et al. 2020)																						✓	✓		✓		✓
(Balli et al. 2020)																				✓	✓	✓	✓				
(Nurohman et al. 2020)																✓	✓										
(N. Saad et al. 2020)							✓	✓	✓	✓					✓	✓	✓	✓					✓				
(Ashraf et al. 2021)							✓	✓						✓	✓		✓					✓					
(Balli et al. 2021)																✓	✓		✓								
	RL: Rule of law, GE: Government effectiveness, CC: control of corruption VA: Voice and accountability, RQ: regulatory quality, PS: Political stability						BOD: Board of director, O: ownership, CEO: Chief executive officer SR: Stakeholders rights				SSB: Shariah supervisory board SD: Shariah documentation SB: Shariah benchmark			LE: Lending S: size, L: leverage, FR: financial ratio				G: industry growth, P: industry performance		E: Export, ER: Exchange rate, GDP: Gross domestic product IN: Inflation				SR: social responsibility, LT: level of trust, GP: government performance CRA: credit rating			

INSTITUTIONAL GOVERNANCE

Institutional governance (IG) was developed by the world bank and it includes six indicators that are voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption (Asongu & Nwachukwu 2016; Omoteso & Mobolaji 2014; Osei-Assibey et al. 2018). Study of Park (2017) indicated that better institutional governance helps in enhancing the bond market by providing effective regulation and monitoring. Studies found that voice and accountability reduces the cost of debt (Meng & Yin 2019). Other studies such as Basyariah et al. (2021) found that voice and accountability has no effect on the development of sukuk.

The literature showed mixed findings in term of the regulatory quality. The effect of regulatory quality on the convertible bond issuance was found significant for the case of western European countries (Dutordoir et al. 2014) while the study of Basyariah et al. (2021) found no significant effect on the sukuk development and growth in Malaysia, Indonesia, KSA, UAE, and Bahrain. Government effectiveness is one of the indicators of institutional governance. It has been found to have a significant effect on bond yield and cost of debt in 22 developed and developing countries (Meng & Yin 2019) and sukuk development and growth in Malaysia, Indonesia, KSA, UAE, and Bahrain (Basyariah et al. 2021). Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (The World Bank 2014). Weak rule of law negatively affects the likelihood of detecting and reporting accounting misstatements for China (Chen et al. 2016). Basyariah et al. (2021) found that rule of law and government effectiveness have significant positive effect on the sukuk development and growth for Malaysia, Indonesia, KSA, UAE, and Bahrain. Rule of law also affected positively the sukuk growth in Saudi Arabia, Kuwait, UAE, Bahrain, Qatar, Indonesia, Malaysia, Brunei, Pakistan, and Gambia (Said & Grassa 2013).

Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests (The World Bank 2014). Control of corruption has a positive impact on the sukuk growth in Saudi Arabia, Kuwait, UAE, Bahrain, Qatar, Indonesia, Malaysia, Brunei, Pakistan, and Gambia (Said & Grassa 2013). The lower the corruption, the larger the sukuk growth in GCC, Yemen, Indonesia, Malaysia, Singapore, Brunei Gambia, and Turkey (Smaoui & Khawaja 2021). Good control of corruption will strengthen the sukuk development while political stability did not affect the development of sukuk of Malaysia, Indonesia, KSA, UAE, and Bahrain (Basyariah et al. 2021). However, the findings of other studies indicated that political stability is critical for the development of financial sector in general and the sukuk in particular. For instance, Basyariah et al. (2020) found that sukuk development is higher in countries with high political stability and indicated that there is a positive relationship between political stability and development of sukuk.

A better institutional governance helps in enhancing the bond market (Park 2017). In the sukuk industry, rule of law and government effectiveness have positive effect on the sukuk development and growth in top five sukuk issuers in Malaysia, Indonesia, KSA, UAE, and Bahrain (Basyariah et al. 2021). On the other hand, countries with higher level of societal trust have lower bond yield in the context of 22 countries (Meng & Yin 2019). Studies that include both sukuk and bond performance indicated that the financial disclosure quality affected positively the sukuk rating but not the bond rating for countries such as Malaysia, Indonesia and Australia (Qizam & Fong 2019).

Based on the above discussion, it can be concluded that the study of institutional governance (IG) is still limited and there are mixed findings in the existing literature regarding the effect of these indicators on the sukuk/bond performance. These mixed findings could be related to the country as the reviewed studies covered Middle Eastern countries, emerging economies, Southeast Asian countries which all have different level of IG and this has affected their impact on the sukuk and bond performance.

CORPORATE GOVERNANCE

Corporate governance is critical for improving the investor right, shareholder bondholder, and employees (Blazy et al. 2012). In this study, four sub-themes were emerged from CG. The first is the board of director (BOD). Effective BOD, which is a component of CG, has resulted in a negative relationship on cost debt and positive relationship on bondholder benefits (Chen 2012). Similarly, characteristic of the BOD played an important role in determining the convertible bond issuance in European union (EU) countries which mainly the Western European countries (Dutordoir et al. 2014). This is because firms with weaker corporate governance are more likely to issue convertible bonds instead of straight debt or equity. The reason for such behaviour is the convertible bonds are of lower priority than straight bonds in the event of default and are unsecured, meaning if a company goes bankrupt, investors may not be repaid the amount that they have invested. Board characteristic also have a positive effect on sukuk rating in Malaysia (Elhaj et al. 2018). In addition, board characteristics affected positively the bond performance for companies in China (Liu et al. 2019). In line with previous studies, board size had a positive and significant effect on the sukuk issuance among Iranian sukuk issuer companies (Kiaee & Soleimani 2019). Therefore, it can be concluded that BOD as a component of CG is critical for the effect of CG and has a positive impact on the performance of bond/sukuk.

Ownership structure (largest three shareholders) played an important role in determining the convertible bond issuance in EU countries (Dutordoir et al. 2014). In addition, ownership rights have different effect on sukuk and bond risk. It reduced the risk of sukuk but not the conventional bond for the case of Malaysian sukuk and bond (N.M. Saad et al. 2016). Ownership structure (President (CEO) -ownership concentration) affected positively the bond leverage and performance in Japan (Nakabayashi 2019). On the other hand, Saad et al. (2019) discovered top six major ownership did not affect the yield while minority ownership affected positively the yield of sukuk and bond in Malaysia. Also, they found that type of ownership (majority versus minority) affect the sukuk issuance, but not bond.

In addition, high government ownership is positively associated with the sukuk issuance for the case of Malaysia (Ashraf et al. 2021). Institutional ownerships (top six institutional ownership, other institutional ownership) significantly reduce yield spreads in long-term conventional bonds and sukuk in Malaysia (Saad et al. 2020). Besides, Kiaee and Soleimani (2019) showed that institutional ownership, insider ownership, and managerial ownership had positive and significant effects on the sukuk issuance among Iranian sukuk issuer companies. Liu et al. (2019) found that ownership affected positively the bond performance among Chinese companies.

The third sub-theme is the CEO characteristics. Studies found that bond performance is positively associated with the characteristic of CEO of US non-financial firms based on the study of Lian (2018). In addition, board characteristics affected positively the bond performance for Chinese companies in China (Liu et al. 2019). CEO duality negatively affected the yield spreads in long-term conventional bonds and sukuk in Malaysia (Saad et al. 2020).

The fourth sub-theme is the stakeholders' rights which includes investors, shareholder, creditors, and community rights. Increase in protecting the rights of shareholders, bondholder, and employees as well as creditors has increased the financial development (Blazy et al. 2012). Creditor and shareholders right affected positively the issuance of bond in EU (Dutordoir et al. 2014). Protecting the rights of shareholders has contributed to the reduction of sukuk risk and contribute the performance of sukuk (N.M. Saad et al. 2016) and the bond performance (Liu et al. 2019). Therefore, effective corporate governance (CG) that is committed to protecting the rights of all stakeholders is critical for the development and performance of sukuk/bond.

SHARIAH GOVERNANCE

A sound and effective shariah governance is critical to improving the sukuk performance (Radzi & Muhamed 2012a). Sukuk can be good alternatives to conventional bonds (Hasan et al. 2019). Similarly, sukuk type has affected sukuk ratings. A guaranteed sukuk *Ijarah* or a guaranteed sukuk *Musyarakah* that is issued by a highly profitable firm has a higher likelihood of getting rating AAA or rating AA as compared to getting rating A. The type of sukuk, particularly sukuk *Murabahah*, is the most significant variable influencing sukuk rating. However, firm size is not a significant determinant of sukuk rating (Borhan & Ahmad 2018). Shariah governance and its link with sukuk legitimacy in Malaysian sukuk was examined in the study of Ahmed et al. (2019a). The findings showed that pricing, type of structure, shariah auditing, shariah risk and shariah documentation have a significant impact on the sukuk legitimacy. SSB moderated the effect of shariah auditing, shariah risk and shariah documentation on sukuk legitimacy. SSB as a moderator was also examined in the study of Ahmed et al. (2018a). The findings showed that documentation has no significant effect on sukuk legitimacy for the case of Malaysian sukuk. SSB moderated the effect of shariah documentation on sukuk legitimacy. SSB as a moderator was also examined in the study of Ahmed et al. (2018b). The findings showed that the moderating effect of SSB on relationship between pricing benchmark and shariah disclosure on shariah declarations of sukuk. Findings of study of Ahmed et al. (2019b) showed that the effect of SSB on disclosure of legitimacy identity in shariah pronouncements.

In Indonesia, Utami, Trinugroho and Sergi (2019) found that shariah compliance level has a significant effect on the probability of issuing *mudharabah* sukuk. The element (sukuk market and bond market) of sukuk market in Malaysia along with the good governance affected the financing decision (between sukuk market & financing decision) in Malaysia (Haron & Ibrahim 2012). Also, studies pertaining to sukuk rating by Elhaj et al. (2017) indicated that sukuk rating is positively associated with corporate governance (CEO-chairman duality, board size and board independence), profitability and size; and negatively correlated with leverage.

4.4 Bank/firm Specific

The theme bank/firm specific includes four sub-themes namely, lending (LE), size (S), leverage (L), and financial ratio (FR). The lending was examined in several studies. For instance, Park (2017) found that lending has a positive effect on bond currency performance in emerging economies of Asian and China, and India. Lending also affected positively the sukuk issuance and rating in Malaysia (Ashraf et al. 2021). Unlike lending, size was examined in most of reviewed studies. The findings of prior literature in term of size is mixed. Meng and Yin (2019) found that firm size did not affect the yield. On the other hand, Chen (2012) found that firm size has a negative effect on cost of debt for public listed companies in the US context.

Similarly, a negative effect between firm size and diversification bond performance for listed companies in Japan was found in the study of O'Brien et al. (2014). On the other hand, a positive effect is existed between firm size and sukuk rating among listed companies in Malaysia (Elhaj et al. 2018). Firm size also has a positive effect on bond performance among Chinese companies (Liu et al. 2019). Firm size also affected positively the sukuk issuance in the study of Saad et al. (2019) among listed companies in Malaysia. Also among listed companies in Malaysia, the effect of firm size on sukuk and bond yield was found positive (N. Saad et al. 2020). The sukuk choice (sukuk issuance) among non-financial firms was affected positively by firm size in Malaysia (Ashraf et al. 2021).

Leverage also was a sub-theme in bank specific variables. Mixed findings were found in the prior literature. The effect of leverage on bond yield was found insignificant for the case of 22 countries (Meng & Yin 2019). Negative effect of leverage on the public listed companies' performance in Malaysia was found in the study of O'Brien et al. (2014). Leverage also affected negatively the sukuk rating for Malaysia (Elhaj et al. 2018) and negatively the bond performance in non-financial firms in US (Lian 2018). Nevertheless, the effect of leverage on bond and sukuk yield was found positive in Malaysia (N.M. Saad et al. 2019) and leverage is the most influential variable on sukuk and bond ratings (Qizam & Fong 2019) and has a positive effect on sukuk rating in financial sector in Indonesia (Nurohman et al. 2020) and affected positively the sukuk issuance of non-financial firms in Malaysia (Ashraf et al. 2021). Leverage also affected positively the cost of debt (bond) for US (Chen 2012).

The fourth sub-theme is the financial ratio which include ROA, ROE, and ROI as well as Tobin's Q. These ratios were used in the reviewed studies to reflect the performance of firms. The ROA and ROE affected the Japanese bond leverage and performance (Nakabayashi 2019). ROA and has a negative effect on cost of debt of bond in US (Chen 2012). While ROA has a positive effect on convertible bond issuance in insurance companies in EU context (Dutordoir et al. 2014), ROA negatively affected bond performance for US (Lian 2018). ROA has a positive effect on bond and sukuk yield spread in Malaysian listed companies (N.M. Saad et al. 2019), as well as on sukuk rating and issuance in Malaysian companies (Ashraf et al. 2021). Another ratio is the Tobin's Q which is found to have a positive effect on bond and sukuk yield spread for Malaysian listed firms (N. Saad et al. 2020) and Malaysian listed companies (Saad et al. 2016), while negative effect on sukuk and bond risk (decrease in yield) for Malaysian listed companies (Saad et al. 2016). As it can be seen, there is mixed findings in term of the bank or the firm specific variables and this could be due to the fact that the dependent variable is either bond or sukuk performance. This variation in findings could be also related to the period of data collection as well as the countries where the studies have been conducted.

INDUSTRY SPECIFIC

Industry specific variables includes two sub-themes that are industry growth (G) and industry performance (P). .Industry growth the year over year growth rate in sales for the median firm in each industry while industry performance is defined as the median value of the variable performance for all firms in each industry (O'Brien et al. 2014). Industry growth had a negative effect on the diversification of performance among listed companies in Japan (O'Brien et al. 2014). Industry growth also affected negatively the sukuk performance (yield) and positively the bond among listed companies in Malaysia (N.M. Saad et al. 2016) while in Europe, there is a positive effect of the industry growth on bond issuance (Afonso & Tovar Jalles 2019), Also, a positive effect of industry growth on yield spread of bond and sukuk was observed among listed companies in Malaysia (Saad et al. 2019) and Indonesia (Sukmana 2020). Industry growth reduced the yield spread in long-term conventional bonds and sukuk in Malaysia (N. Saad et al. 2020). The differences between the two studies could be related to the sample companies and the variables that are involved in each study. For industry performance, high performance of industry (measured by the median value of the variable performance for all firms in each industry) affected positively the diversification of the performance in term of financing decision of companies (O'Brien et al. 2014).

COUNTRY SPECIFIC

Country specific variables are divided into four themes. These include the export and import (E), exchange rate (ER), gross domestic product (GDP), and income (IN). In emerging economies, the export and import compared to GDP affected positively the performance (government bond spread) of bond (Margaretic & Pouget 2018). Among OCED countries, (Crifo et al. 2017) found that import is critical (positively) for the performance (yearly yield) of bond.

Exchange rate was also examined in prior literature. Park (2017) found that exchange rate volatility is positively associated with the bond performance in Asian market. Similarly, Basyariah et al. (2021) found that exchange rate is positively impacting the sukuk development in term of sukuk growth, and yield in Malaysia, Indonesia, KSA, UAE, and Bahrain. The third sub-theme is the GDP. Basyariah et al. (2021) found that GDP has a positive effect on the sukuk yield and growth. GDP was also found to have a positive effect on bond and sukuk performance. GDP affected positively the yield spread of bond and sukuk in Malaysia (N.M. Saad et al. 2019). It also affected positively the sukuk rating and issuance in Malaysia (Ashraf et al. 2021). An insignificant effect of GDP on the bond performance (yearly yield) was observed in the study of Crifo et al. (2017) for the case of OCED countries. GDP has a negative effect on the stakeholder and manager conflict in Japanese listed companies (Nakabayashi 2019). Therefore, the effect of GDP can be positive, negative or no effect.

Inflation is the fourth sub-theme. Studies found that the effect of inflation was negative on bond performance (ratio of local currency to local GDP) (Park 2017) while it has a positive effect on bond yield (Meng & Yin 2019) and insignificant effect on sukuk development such as issuance and yield (Basyariah et al. 2021) and insignificant effect on bond yield (Crifo et al. 2017). Overall, the findings regarding the country specific variables are mixed and this could be due to the fact that the inflation rate in countries is varied, and this variation is affecting the direction and significance level of the impact of inflation on sukuk/bond performance.

OTHERS

The last theme was stated as others which is also important variables but cannot be categorized under the other six themes. The first sub-theme is social responsibility of firms that are active in issuing bonds. Social responsibility has a positive effect on bond performance in 20 developed countries (Drut 2010) and affect positively the bond spread in Emerging economies (Margaretic & Pouget 2018). High rated government bond based on social responsible investment outperform those bond in terms of bond performance with low social responsible investment based on findings of 24 countries (Badía et al. 2019). Nevertheless, other findings showed that performance of highly socially rated bond is not significantly different from low socially rated bond for the case of Eurozone (Pereira et al. 2019). On the other hand, among OCED countries, the conduct of social responsibility activities reduced the bond spreads (Crifo et al. 2017).

Level of trust is a unique variable, and it has been examined in limited studies. Meng and Yin (2019) indicated that high level of trust affect positively the bond yield; meanwhile in countries with low level of trust, the effect is negative. Another unique factor is the government performance which is different from government effectiveness. Government performance is defined as general government gross debt (Margaretic & Pouget 2018). This variable was examined in limited number of studies. Margaretic and Pouget (2018) found that government performance (measured by general government gross debt) has no significant effect on bond spread for emerging economies. Afonso and Tovar Jalles (2019) indicated that government performance in term of refinancing operation and purchase programs as well as ratings and outlooks of fiscal development have a positive impact on the bond spread in Europe. Rating or credit rating is the last sub-theme, and it was found to have negative effect on bond performance among non-financial firms in US (Lian 2018). High credit rating was associated negatively with cost of debt in US (Chen 2012), indicating that the increase in the rating will decrease the cost of debt and this is in line with the conclusion of (Afonso & Tovar Jalles 2019) who found that rating is positively associated with the bond spread for European Countries.

DISCUSSION

The findings regarding the link between governance and sukuk/bond were divided based on the corporate governance, institutional governance and shariah governance. Studies in this review focused on the effect of corporate governance on sukuk and bond performance and found that there is a variation in the results based on the sample countries and continents. In a study conducted by Chen (2012), mixed findings were derived in term of the effect of board on cost of debt and bondholder benefits. Ownership structure has significant effect on bond issuance (Dutordoir et al. 2014), while ownership rights reduce the risk of sukuk but not the bond (N.M. Saad et al. 2016). Board characteristic affected positively the sukuk rating (Elhaj et al. 2018; Lian 2018).

Mixed findings were also found in term of the ownership structure. For instance, bond performance was affected by the ownership structure in China (Liu et al. 2019) and Japan (Nakabayashi 2019) while larger ownership (top six largest ownership) has no effect on yield of bond and sukuk in Malaysia (N.M. Saad et al. 2019). Also, the findings are mixed in terms of type of ownership. Positive association was found between governmental ownership and sukuk issuance (Ashraf et al. 2021) while institutional ownership (ownership concentration of top six owners) reduced the yield of bond and sukuk (N. Saad et al. 2020). Therefore, it can be concluded that the effect of corporate governance variables on bond and sukuk issuance are mixed and this can be explained due to the differences of country and industry's regulation.

In term of shariah governance, the studies are still limited with majority of reviewed studies focusing on the role of Shariah Supervisory Board (SSB) as a moderator. For instance, SSB as a moderators was examined in several prior literature (Ahmed et al. 2018b; Ahmed et al. 2019; Ahmed et al. 2019; Ahmed et al. 2018) and found that SSB has a mixed findings in term of being as a moderator. Besides, shariah compliance has a positive impact on sukuk issuance. (Utami et al. 2019). Prior literature on sukuk were mainly into the factors that affect the sukuk rating (Borhan & Ahmad 2018; Elhaj et al. 2018). There is a need for more studies to examine the link between Shariah governance and sukuk performance in term of issuance and yield.

In term of the association between the country level governance or institutional governance, rule of law affected the sukuk development and growth (Basyariah et al. 2021). Mixed findings were also found in term of the element of institutional governance. For instance, voice and accountability reduces the cost of debt for bond (Meng & Yin 2019) and has no effect on sukuk development (Basyariah et al. 2021). Regulatory quality affected signficantly the issuance of bond (Dutordoir et al. 2014), while it did not affect the sukuk development (Basyariah et al. 2021). Government effectiveness affected bond yield and cost of debt (Meng & Yin 2019), and sukuk development and growth (Basyariah et al. 2021). Agreement in the literature is existed in term of rule of law and government effectiveness to have significant positive effect on sukuk development and growth (Basyariah et al. 2021; Said & Grassa 2013).

Control of corruption affected positively the sukuk development and growth (Said & Grassa 2013; Smaoui & Khawaja 2021), while political stability did not affect the development of sukuk (Basyariah et al. 2021). On the other hand, political stability is critical for the development of financial sector in general and the sukuk in particular (Basyariah et al. 2020). Taken together, a noticable findings is that there are limited studies of governance and sukuk/bond performance, especially studies that examined the effect of more than one type of governance (such as corporate and institutional governance) on bond performance. What more a comprehensive governance study covering corporate, institutional, and shariah governance on sukuk performance.

CONCLUSION AND RECOMMENDATION

This study was conducted to understand the link between governance and bond/sukuk performance. The study is a systematic literature review that has collected 30 articles from reliable databases between 2010-2021. The findings showed that number of articles is increasing. However, most of these articles are cross countries. The public listed companies are one of the main issuer of sukuk and bond followed by financial and governmental firms. Agency theories is widely used in the literature and most of the studies used OLS as the analytical tool. The findings showed that studies that are related to sukuk is limited. In addition, studies that include both types of governance such as institutional governance and corporate governance are limited. Nevertheless, based on the reviewed articles it can be concluded that the effect of governance on performance of sukuk/bond is mixed and largely dependent on the country and the industry.

The performance and trustworthiness of financial instruments, such as sukuk and bonds, are significantly influenced by effective governance. This emphasizes the importance of governance at several levels, ranging from the narrow area of Shariah governance to the larger national level that includes the rule of law, combating corruption, and maintaining political stability. Shariah governance is crucial for ensuring trust in sukuk since it strictly follows Islamic rules. Sukuk structures must adhere to the principles of Islamic law, often known as Shariah. Robust Shariah governance procedures guarantee that sukuk issuers strictly follow these standards, therefore instilling investors with assurance about the ethical and religious conformity of their investments.

Shariah governance involves the selection of Shariah experts or boards who are responsible for evaluating and endorsing sukuk structures, ensuring their certification and reliability. These scholars verify that the sukuk's underlying assets and transactions comply with Islamic norms. The certification enhances the trustworthiness of the sukuk, hence increasing its appeal to Islamic investors. The selection of board members plays a crucial role in the effective management of financial instruments, such as bonds. Experienced and respected directors provide a significant amount of expertise and discernment to the decision-making process. By acquiring comprehensive knowledge, individuals are able to make well-informed decisions on the issue, administration, and effectiveness of bonds, resulting in improved results for bondholders. A board of directors that has a proven history and a respected reputation boosts investor trust in the administration of the bond. Investors are more inclined to have confidence in the protection of their interests when the decision-making process is led by seasoned specialists. At the national level, the presence of the rule of law, effective control of corruption, and political stability are crucial factors in establishing a conducive climate for the successful growth of both sukuk and bonds. Robust governance improves the performance of financial instruments and fosters confidence among the public and investors, so bolstering the success of financial markets.

Although this study offers valuable insights, it operates within certain limitations, notably the exclusive reliance on two well-known academic repositories, WoS and Scopus. To increase the breadth and generalizability of the findings, subsequent investigations would be desirable to expand the scope of their database to include platforms such as Google Scholar. Based on the current academic discourse, future research efforts would be wise to focus their attention primarily on sukuk, rather than conventional bonds. The domain of Islamic finance, particularly related to sukuk, presents various gaps in the literature, which require thorough scholarly exploration. The sukuk in Gulf Council Countries (GCC) is growing and more studies are needed in this region. A comparison between Southeast Asian countries such as Indonesia and Malaysia with the GCC can be a direction for future research because these countries are active in issuing the sukuk. Looking ahead, we encourage scholars to implement a more holistic approach by integrating diverse typologies of governance, encompassing corporate, institutional and Shariah governance, when building a sukuk framework. This framework establishes a link between governance mechanisms and sukuk or bond performance, and intelligently incorporates various control variables. Specifically, at the firm level, considerations include company size, leverage and bank-level financial ratios. Meanwhile, industry-level factors include industry growth and performance metrics. Finally, on a broader scale, country-level credit ratings emerge as important given their important role and differences observed across corporate entities and countries. It should be noted that the proposed framework awaits empirical verification in subsequent studies.

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