

The Governance and Culture in Islamic Banking Enterprise Risk Management: A Systematic Literature Review

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Kata kunci: Tata Kelola, Budaya, Manajemen Risiko Perusahaan, PRISMA, Perbankan Syariah, COSO

Abstract

Purpose: Exploring the governance and culture of enterprise risk management within Islamic banking.

Method: Employs a qualitative approach, utilising a literature review that draws on databases including Scopus, Google Scholar, and ScienceDirect with the PRISMA approach. From the query "Governance culture AND enterprise risk management of Sharia banking", 127 articles were produced, which were then refined to 38 pertinent articles.

Research Findings: The enterprise risk management of governance and culture in Islamic banking with COSO model are the efficacy of transparency, accountability, and decision-making; the value of integrity, justice, Sharia principles, transparency, and supervision; the actors, including the Board of Commissioners, the Sharia Supervisory Board, Senior Management, Auditors, and Regulators; and the factors of integrity, transparency, fairness, supervision, and leadership.

Contribution: Strengthening measurement risk management governance and culture based on Sharia values in Islamic banking, utilising COSO models.

Abstrak

Tujuan Penelitian: Mengeksplorasi tata kelola dan budaya manajemen risiko perusahaan di perbankan syariah

Metode: Menggunakan pendekatan kualitatif, memanfaatkan tinjauan pustaka berbasis data termasuk Scopus, Google Scholar, dan ScienceDirect dengan pendekatan PRISMA. Dari kata "Budaya tata kelola DAN manajemen risiko perusahaan perbankan syariah", dihasilkan 127 artikel, yang kemudian disempurnakan menjadi 38 artikel terkait.

Temuan Penelitian: Manajemen risiko perusahaan dalam tata kelola dan budaya di perbankan syariah dengan model COSO yaitu efektivitas pada transparansi, akuntabilitas, dan pengambilan keputusan; nilai pada integritas, keadilan, prinsip-prinsip syariah, transparansi, dan pengawasan; aktor termasuk Dewan Komisaris, Dewan Pengawas Syariah, Manajemen Senior, Auditor, dan Regulator; serta faktor pada integritas, transparansi, kewajaran, pengawasan, dan kepemimpinan.

Kontribusi: Memperkuat pengukuran tata kelola dan budaya manajemen risiko berdasarkan nilai-nilai syariah di perbankan Islam. dengan model COSO.

INTRODUCTION

Islamic banking in Indonesia has experienced rapid development over the past few years, marked by the continued expansion of institutions and assets, reflecting growing public interest and confidence in Sharia-based financial systems. This progress is driven by supportive government regulations, technological innovation, and increasing awareness of ethical finance principles aligned with Islamic values. As a result, Islamic banking not only serves as an alternative to conventional banking but also contributes significantly to the stability and inclusiveness of Indonesia's national financial system. It is necessary to understand how Islamic banking upholds governance principles and culture in its risk management.

According to data from the Financial Services Authority (2024), as of February 2024, there are 33 Islamic banks, comprising 14 Sharia-compliant commercial banks and 19 Sharia-compliant business units. This reflects a positive trend of growing public trust in the banking system based on Sharia principles. In relation to this development, it is important to understand how risk management is implemented in Islamic banking, particularly in ensuring compliance with Sharia values while maintaining financial stability and governance integrity.

The growth of total assets and financing of Islamic banking also increased significantly, reflecting the great potential of this sector in the national economy. It is projected that in 2023, the total will reach IDR 892.17 trillion, representing a 11.21% growth compared to the previous year. Meanwhile, the market share of Islamic banking is expected to be 7.44% of the total national banking market, up from 7.09% in 2022 (Financial Services Authority, 2023b). Islamic banking financing also increased by 15.72% to IDR 585.46 trillion, while Third Party Funds (DPK) grew by 10.49% to reach IDR 684.52 trillion (Financial Services Authority, 2023a). This growth demonstrates the significant potential of the Islamic banking sector in the expanding Indonesian economy.

Caution is needed given the complexity of the risks faced by Islamic banks, which include unique credit, liquidity, operational, legal, and Sharia-compliance risks. Islamic banks often face limitations in governance culture, risk management in accordance with Sharia principles, regulatory harmonisation, and specialised expertise in effective Sharia risk management in this sector (Kasanah, 2024; Malem, 2015; Aldoseri & Worthington, 2016). Therefore, Hossain et al. (2023) emphasise the importance of strengthening enterprise risk management to maintain the stability and sustainability of Islamic banking while maintaining public trust. Additionally, immature money markets and limited market infrastructure exacerbate Islamic banking's vulnerability to risk.

One of the models that is seen as having high relevance to the proper enterprise risk management for Islamic banking, based on a study by Naya et al. (2025), Aulya (2025), Thohari et al. (2025), Zuraidah et al. (2025) and Alsalami et al. (2023), affirms that *Enterprise Risk Management* (ERM) is particularly appropriate to be implemented in Islamic banking as it provides a holistic framework that helps identify, manage, and monitor risks in an integrated manner. ERM supports the stability and sustainability of Islamic banks by strengthening risk governance, ensuring compliance with sharia principles, and enhancing stakeholder trust through proactive, systematic risk management.

The holistic approach to comprehensively identifying, measuring, and managing risks has made the model application of Enterprise Risk Management (ERM) particularly relevant. The COSO Board commissioned and published the Enterprise Risk Management Integrated Framework in 2004 in accordance with its overarching mission (COSO, 2023). COSO's Enterprise Risk Management (ERM) model, developed by the Committee of Sponsoring Organisations of the

Treadway Commission, provides a framework that incorporates various risk management components with effective enterprise governance (COSO, 2017). To generate value, ERM COSO is a risk management framework that integrates enterprise culture and governance with strategy and performance setting (Febrianti & Novita, 2021). Nevertheless, the significance of adhering to Sharia principles should not be overlooked, as it ultimately leads to a flawed system in Islamic banking (Hasan & Dridi, 2011; Fadillah et al., 2021).

The advantage of COSO's ERM model as an initial principle lies in its integrated approach and emphasis on governance culture and continuous oversight (Mikes & Kaplan, 2014; Arena et al., 2010). For this reason, governance culture is the primary focus of this study as a literature guide for enterprise risk management in Islamic banking.

The potential for enterprise risk management in Islamic banking in Indonesia is enormous, given the unique risk characteristics and demands for compliance with sharia principles (Wicaksono, 2024; Prabowo & Anggraini, 2024). With the COSO ERM model, banks can not only strengthen internal control systems but also increase stakeholder trust through better transparency and accountability. This is crucial for navigating market dynamics and enhancing Islamic banking's competitiveness.

However, the main problem that often arises is the lack of a deep governance culture approach in risk management, as revealed by Sitasari (2021), Alhammadi et al. (2020), Darma and Afandi (2021), Ginena (2014) and Zuraidah et al. (2025), that strong enterprise risk management greatly determines the success of the implementation of risk management. However, good governance has not yet incorporated effectiveness, human resources, values, and supporting factors into the entire risk management process.

The current research suffers from a deficiency: it predominantly focuses on the technical dimensions of risk while failing to fully incorporate governance culture—an essential determinant of enterprise risk in Islamic banking. This deficiency presents a significant opportunity to investigate further the correlation between governance culture and the effectiveness of ERM adoption in Islamic banking.

Similarly, a research gap exists regarding the application of ERM across four cultures and governance scopes in Indonesia's Islamic banking sector, using the COSO model, as the existing literature inadequately addresses the distinct governance cultures within these scopes. This research aims to address these gaps by evaluating how risk governance cultures might be recognised and enhanced to facilitate more effective risk management.

Based on the aforementioned explanation, the research question arises: What is the significance of an enterprise risk management culture in Islamic banks? What are the prevailing governance cultural principles in the risk management of Islamic financial institutions? Who participates in the risk management culture of Islamic banking institutions? What are the primary variables that influence the risk management culture of Islamic banking institutions?

This research is notable for its application of the ERM COSO model, with a specific emphasis on four governance culture approaches as key elements in enhancing risk management in Islamic banking. This research contribution offers comprehensive insight for practitioners and regulators into the significance of incorporating governance culture into risk management, particularly in Islamic banking. The primary objective of this study is to analyse the governance and culture of Enterprise Risk Management in Islamic banking across four dimensions—efficacy, values, actors, and supporting governance and cultural variables—according to the COSO framework.

LITERATURE REVIEW

Enterprise Risk Management

The Enterprise Risk Management (ERM) COSO is a risk management framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), which emphasises integrating risk management with the establishment of organisational strategy and performance (COSO, 2017). This framework defines risk management as the culture, capabilities, and practices that are integrated with the strategy and performance setting processes used by organisations to manage risk in order to create, maintain, and realise value. COSO ERM emphasises the importance of enterprise governance and culture, as well as the development of effective strategies, in achieving effective risk management (Febrianti & Novita, 2021).

The COSO ERM framework consists of five main components that must be implemented in order for the organisation to be able to manage risk and performance optimally, namely: governance and culture, strategy and goal setting, performance, review and revision, as well as information, communication, and reporting (COSO, 2023). These five components are supported by 20 principles that help organisational leaders identify and manage risks as opportunities to improve company performance and value continually. The framework also guides organisations in adapting to the ever-changing complexity of risk in the modern business environment, including the digital era.

Governance and Culture

Governance and culture refer to the shared values, attitudes, behaviours, norms, and habits that shape the way an organisation organises decision-making processes, stakeholder relationships, and the implementation of governance policies (Tadesse Bogale & Debela, 2024). This culture influences how governance is carried out daily and serves as the foundation for the organisation's governance success. Governance culture is not only about formal structures, but also about how interactions and communication occur, as well as how values and principles are internalised by all members of the organisation (Perrin, 2024).

A culture of good governance also plays a crucial role in fostering and strengthening the organisation's internal and external trust (OECD, 2018). This trust serves as the foundation for relations with stakeholders and enhances the organisation's legitimacy in the eyes of the public. Organisations with strong governance cultures tend to be better able to manage risk and maintain their reputation in the long term (Koeswayo et al., 2024).

In addition, the culture of governance influences communication and decision-making patterns in the organisation (Ika Mayasari et al., 2020). An open culture that values participation encourages inclusive and well-informed decision-making, thereby reducing the risk of bias and unproductive conflict. This is important in the context of risk governance, where timely and accurate decisions are critical to the success of risk mitigation.

Effectiveness of Governance and Culture

The effectiveness of governance and culture can be seen in its ability to create transparency, accountability, and decision-making that aligns with organisational values and goals (Carpenter et al., 2014). An effective governance culture fosters trust among management, stakeholders, and the broader community, thereby enhancing overall organisational performance. The success of this governance is also influential in maintaining compliance with applicable principles and regulations,

especially in Islamic banking, which prioritises Islamic principles (Wijaya et al., 2024; Ahmad et al., 2023).

Conversely, when governance and culture are weak, the risk of authority abuse and risk management failures increases significantly, which can ultimately damage an organisation's reputation and threaten its business sustainability (Maswani et al., 2019). Therefore, strengthening the governance culture is an important consideration for management and stakeholders to ensure the organisation runs effectively, transparently, and sustainably in accordance with the principles it adheres to.

Value of Governance and Culture

Values in a governance culture include integrity, fairness, transparency, and accountability. These values become ethical and operational guidelines that determine the standards of behaviour of organisational members (Llopis et al., 2007). Strong values encourage the implementation of good governance by increasing commitment to governance principles and supporting ethical decisions (Zahari et al., 2024). This value also strengthens the culture of governance by making governance an integral part of the organisational culture.

The adoption of values and a culture of good governance often requires a process of cultural change accompanied by continuous training, socialisation, and value instillation (Martinez et al., 2021). This cultural transformation requires a long-term commitment from the leadership and all members of the organisation, so that governance values can become a natural habit and an integral part of the organisation's identity.

Actor of Governance and Culture

Actors in the governance culture include organisational leaders, boards of directors, top management, employees, external stakeholders, regulators and the public (O. K. Akinsola, 2013). Each of these actors has a unique role and responsibility in forming, developing, and maintaining a culture of governance in the organisation. The active involvement of all actors is an important key to creating participatory and inclusive governance, which can ultimately ensure the sustainability and effectiveness of enterprise governance (R. Sari, 2023).

Leaders have a central role in setting examples of behaviour that align with governance values and in fostering a positive governance culture. Strong leadership can guide the entire organisation in upholding the principles of transparency, accountability, and compliance with applicable regulations, including Sharia norms in Islamic banking (Mat Nan & Hassan, 2024; Kiranawati et al., 2023). Thus, the roles of leaders and other actors become highly strategic in achieving effective governance, thereby increasing stakeholder trust and overall organisational performance.

Factor of Governance and Culture

Supporting factors for a strong governance culture include visionary and ethical leadership, open communication, transparency, training and development of a governance culture, and effective oversight systems (Zhu et al., 2025; Koeswayo et al., 2024b). In addition, an organisational culture that supports collaboration and innovation also strengthens governance by creating a work environment that is adaptive to new changes and risks. The role of technology and information systems is also an important supporter of improving governance effectiveness through accurate monitoring and timely reporting (Otiko et al., 2021).

Finally, the successful implementation of governance and culture is highly dependent on the synergy between internal and external factors, including policy support, regulation, and organisational social culture (Harahap & Risfandy, 2022). A comprehensive understanding of governance culture needs to be integrated into organisational strategies to ensure sustainable, adaptive governance (OECD, 2018).

RESEARCH METHODS

This study is a systematic literature review conducted using the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-analysis) method, structured in accordance with the appropriate research stages and protocols (Harris et al., 2014; Page et al., 2021). This systematic review aims to evaluate, identify, and analyse all relevant results from previous research on current topics or phenomena, ensuring the facts presented are comprehensive and balanced.

The stages carried out include the formulation of research questions, systematic literature search, screening and selection of appropriate articles, analysis and synthesis of qualitative findings, quality control, and preparation of final reports (Ramayanti et al., 2023). For this reason, a qualitative approach is used to frame, analyse, and offer comprehensive solutions by identifying the enterprise risk management governance culture in Islamic banking. After an in-depth review, several selected articles were used as primary sources to characterise the main elements of a particular style, based on key points from the authors (Moher et al., 2010). In this case, the culture of governance and risk management of Islamic banking is considered.

This systematic review procedure consists of several steps, including compiling background and objectives, formulating research questions, searching for literature, selecting criteria, developing data extraction strategies, assessing the quality of primary studies, and synthesising the data (Yaniawati, 2020).

Research Question on Literature Review

Code	Research Question	Motivation
G&C1	What is the role of enterprise risk management, governance, and culture in Islamic banks?	Identify the most effective governance and culture in the risk management of Islamic banking.
G&C2	What are the dominant governance and culture values in the risk management of Islamic banking?	Identify the strongest governance and cultural values in Islamic banking risk management.
G&C3	Who is involved in the risk management governance and culture of Islamic banking?	Identify key actors in the risk management governance and culture of Islamic banking.
G&C4	What are the primary factors that influence the governance and culture of enterprise risk management in Islamic banking?	Identification of internal and external factors that shape the enterprise risk management governance and culture of an Islamic bank

This study was conducted in Jakarta from July to September 2025. It involved a search for relevant research articles on this topic using keywords such as "governance culture" and "Shariah banking risk management." The databases used for article selection include Scopus, Google Scholar, and ScienceDirect. The search strategy was adjusted to the predetermined inclusion criteria to ensure consistency in article selection and minimise potential bias.

The inclusion criteria set for selecting articles were: research published in English (IC1); complete articles published in national or international journals between 2015 and 2025 indexed in the selected databases; and articles that focus on the culture of governance and risk management in Islamic banking (IC2). Once articles passing these criteria were identified, they were further analysed to extract relevant information.

Data extracted from the selected articles were then descriptively analysed and synthesised to observe, classify, and describe the information. This meta-synthesis aims to generate new insights by combining findings from multiple qualitative studies, effectively transforming them into new knowledge and furthering scientific dissemination (Swartz, 2011).

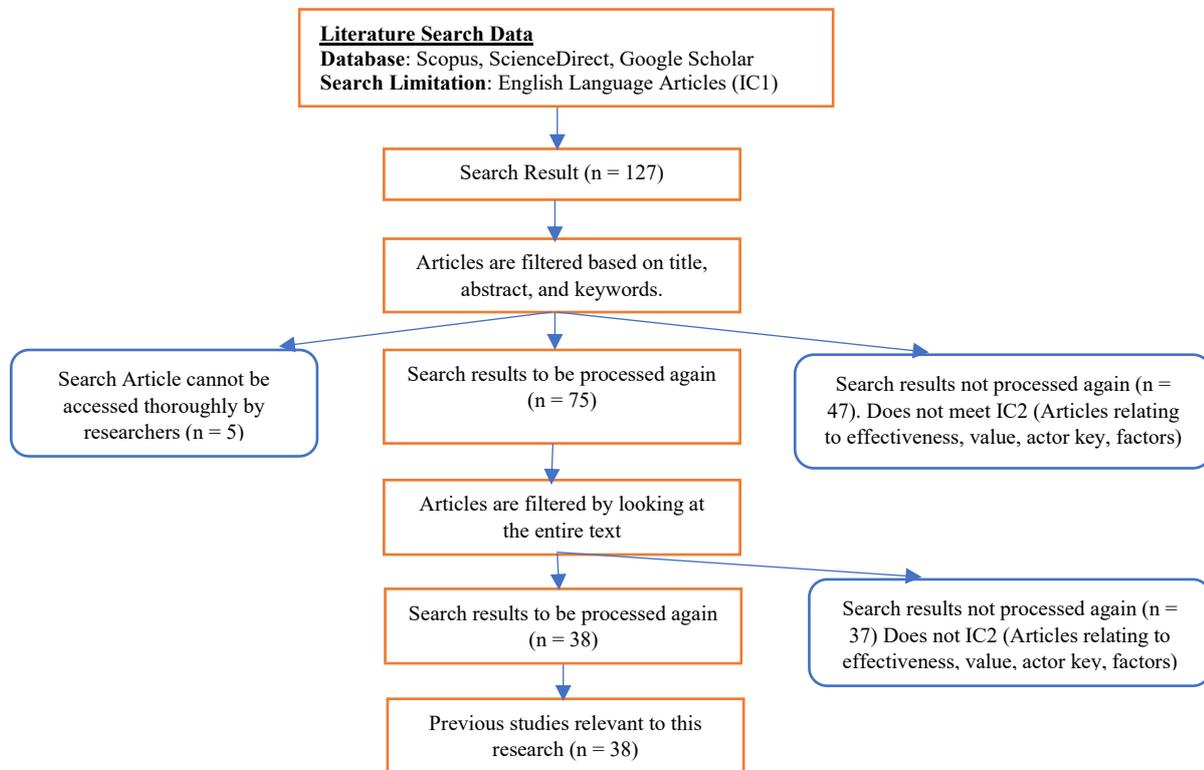


Figure 1: Prisma Flow Diagram Systematic Review

Following the analysis, data extraction focused on gathering specific data to address the research questions. The quality of the primary studies was assessed to guide the interpretation of synthesised results and to help determine the robustness of conclusions drawn.

RESULTS AND DISCUSSION

Results

From digital searches, 127 articles were found in a predetermined database. Eighty-nine were excluded because they did not meet the inclusion criteria. The theme "Governance and Culture Gap in Shariah Banking Enterprise Risk Management" was developed from this meta-analysis, which identified 38 articles that discussed four approaches to Governance and Culture in Shariah Banking Enterprise Risk Management, highlighting their advantages and disadvantages.

Discussion

The culture of governance in Islamic banking is crucial because core values, such as transparency, accountability, and ethics based on Sharia principles, must be integrated into the risk

management framework. The COSO ERM framework provides a systematic approach to managing risk with an emphasis on governance and organisational culture as the primary foundation for success (Febrianti & Novita, 2021). Research by Zuraidah et al. (2025) and Alsalami et al. (2023) has demonstrated that implementing COSO ERM improves Islamic Enterprise Governance (ICG), which synergises the principles of sharia governance with risk management to ensure sharia compliance and effective risk management.

Moreover, Wahyuni and Novita (2021) emphasised that integrating COSO ERM into Islamic banks' strategic operations can improve the quality of planning and control in line with ICG standards, while facilitating effective risk communication and continuous risk monitoring. Strong governance principles strengthen leadership, human resource management, and technology governance in Islamic banks, enabling them to achieve strategic goals and operational stability (COSO, 2017; Zuraidah et al., 2025).

Other literature by Bouheraoua and Djafri (2022) suggests that implementing COSO ERM with support from the Sharia compliance function can simultaneously improve risk management and internal governance, thereby encouraging transparent and trusted organisations. Sharia values such as justice, honesty, and social responsibility are also fundamental principles in governance that shape the organisational culture and long-term success of Islamic banking.

The Effectiveness of Governance and Culture in Islamic Banks' Enterprise Risk Management

The effectiveness of governance and culture in enterprise risk management within Islamic banks can be observed through several key aspects, as outlined in the COSO principles. *First*, the effectiveness of the governance culture is reflected in its role in increasing transparency, enabling an open and accurate flow of information among all stakeholders. This transparency is essential in the context of Islamic banks to ensure that every activity is in accordance with Sharia principles and to minimise the risk of irregularities. Research by Elamer et al. (2020) demonstrates that effective Sharia governance encourages greater risk disclosure obligations, thereby increasing stakeholder confidence. Then, transparency will increase the effectiveness of enterprise risk management governance culture in Islamic banks for developing countries (Abid et al., 2021; Utami & Damayanti, 2024).

Second, a strong governance culture also supports clear accountability for leadership, the board of commissioners, and top management in the effective execution of supervisory and risk management tasks. The role of the Board of Commissioners is to oversee the implementation of policies and risk management, provide direction and evaluate the governance system, and ensure compliance with Sharia principles. In contrast, the Sharia Supervisory Board specifically oversees the suitability of banks' operations and products in accordance with Sharia principles, provides advice, and mitigates the risk of non-compliance, thereby maintaining the integrity and effectiveness of risk management in Islamic banks (Darma & Afandi, 2021; Alatassi & Pillai, 2022).

Third, effective decision-making roles based on good governance will yield risk management policies and strategies that are relevant and responsive to the challenges of the business environment. Decision-making based on Sharia governance values, including fairness and transparency, enhances risk mitigation and supports institutional sustainability. Research by Ihyak et al. (2023) suggests that implementing an effective governance culture in Islamic banks enhances risk management decision-making, thereby supporting institutional stability and financial performance. This is supported by the opinion of Kurniawan et al. (2024), who suggest that the

role of decision-making in Islamic banking risk management will enhance the effectiveness of the governance culture applied.

Thus, transparency, accountability, and effective decision-making will improve the enterprise risk management culture in Islamic banking, as per the COSO approach, which identifies the most effective governance culture for risk management in Islamic banking companies.

The Value of Governance and Culture in Islamic Banks' Enterprise Risk Management

Understanding the importance of a value built on a culture of governance is necessary in a for-profit organisation; it is essential to have values that can enhance the company's risk management effectiveness. *First*, the value in Islamic banks' governance culture is integrity, which serves as the primary foundation for conducting business in accordance with Sharia principles. Integrity promotes adherence to Islamic principles and ethics, ensuring that all banking activities are conducted honestly and transparently, in accordance with moral values. For this, Mat Nan and Hassan (2024) emphasised that integrity in Sharia governance is fundamental to building customer and stakeholder trust, as well as supporting the financial performance and reputation of Islamic banks in a sustainable manner. Then, Nature and Miah (2024) strengthen the argument that, with high integrity, the value of Islamic banking governance culture will increase, ultimately minimising the risk of the company being rejected.

Second is the value of fairness, which, in the context of Islamic banks, refers to ensuring a fair distribution of resources in the bank's relationships with customers and business partners. This fairness is reflected in risk management that prioritises a balance between rights and obligations, and provides equal protection for all parties involved. For this, Lee (2021) states that the value of fairness encourages governance that is responsive to the interests of all stakeholders and reduces discriminatory practices that can undermine trust and operational stability. Likewise, K. Akinsola and Taofeek (2025) revealed that the greater the value of justice is applied in the organisation, the stronger the governance culture will be, thereby enhancing risk management in Islamic banking.

Third is the value of transparency, which is the foundation for open access to information for all stakeholders related to risk management and bank operations. Transparency facilitates accountability and enables the early detection of potential risks, making it a crucial element in effective governance. How the value of transparency will be effectively implemented in the governance culture of Islamic banking, Shirley (2019) and Gusrianti and Violita (2021) noted that transparency in risk disclosure and sharia compliance strengthens the bank's legitimacy in the eyes of regulators and the public. In this case, Pangaribuan (2020) emphasised that to avoid greater risks in Islamic banking, it is essential to establish transparent values, thereby fostering a culture of better governance.

Fourth, the value of Sharia principles in the governance culture enables Islamic banks to manage risk holistically and sustainably, while ensuring strict alignment in daily operations. The effectiveness of these values in risk governance has been supported by interdisciplinary studies that assess their impact on the compliance, performance, and operational sustainability of Islamic banks (Ihyak et al., 2023; Elamer et al., 2020). The spirit of Islamic banking is not only in the managerial aspect but also in the principles of sharia, which also plays an important role, Mat Nan and Hassan (2024) and Wijaya et al. (2024) underlining that maintaining compliance with sharia principles carried out in Islamic banking will further shape the character of the cultural values of governance that are increasingly strong

Fifth, the value of supervision on the value of a consistent governance culture strengthens the management structure to increase the effectiveness of risk management of Islamic banking companies in the face of the complexity of financial and regulatory risks, as well as optimize the prevention of violations of sharia norms, maintain public trust and stability of the Islamic banking industry in general (Wahyuni & Novita, 2021; N. Sari et al., 2024). Then, Wijayanti and Setiawan (2023) and Mansoor et al. (2020) emphasise that the value of supervision lies in its public-interest focus, as it involves stakeholders. Strengthening a culture of good governance can help avoid losses in enterprise risk management in Islamic banking.

Thus, the values of integrity, justice, Sharia principles, transparency, and supervision are the strongest in increasing the value of risk management culture in Islamic bank companies, as identified in the COSO approach, which highlights the most effective governance culture values in risk management for Islamic bank companies.

Actor of Governance and Culture in Islamic Banks' Enterprise Risk Management

The governance and culture in risk management at Islamic banks involve several key actors who play a strategic role in overseeing the implementation of effective governance values and Sharia principles. *First*, the Board of Commissioners is the primary major actor, tasked with overseeing risk management policies, setting governance visions and directions, and ensuring that all bank activities comply with Sharia principles. The Board of Commissioners plays a central role in setting the "tone at the top," which is the foundation for a strong culture of risk and governance across the organisation (IFSB, 2023; Mahareeq & Abu Karsh, 2024). The role of the board of commissioners has a significant influence on the governance culture of Islamic banking risk management; for this reason, Zuraidah et al. (2025) and Darma and Afandi (2021) emphasise the importance of effectively implementing COSO to address the challenges of Islamic banking.

Second, the Sharia Supervisory Board further becomes an important actor that explicitly oversees the compliance of all bank products and operations with Sharia principles. This board is responsible for conducting Sharia reviews and audits and for providing recommendations to avoid practices contrary to Sharia. The independent role of the Sharia Supervisory Board is vital in protecting the reputation of Islamic banks while strengthening stakeholder trust through objective supervision (Fatmawatie & Endri, 2022; OJK, 2023). Meanwhile, to establish Sharia supervisors as a benchmark for governance culture, Nugraheni and Muhammad (2019) and Listyorini et al. (2024) emphasise that the more effective the Sharia Supervisory Board is, the less it will expose Islamic banking to deeper risks.

Third, senior management, particularly the Chief Risk Officer (CRO), plays a key role in implementing daily risk policies and identifying, evaluating, and mitigating risks arising in the field. This role serves as a liaison between the strategic policies set by the board and operational implementation, and it also helps build risk awareness across all business units (Ariffin & Kassim, 2014). With effective leadership from senior management, the risk governance culture in Islamic banks can be optimised and sustained (Sitasari, 2021; Sebayang et al., 2024). Elamer, Ntim, and Abdou (2020) found that strengthening senior management in fostering a culture of Islamic banking risk management governance positively influences the effectiveness of COSO implementation.

Fourth, auditors, in carrying out internal and external audit functions, play a key role in providing assurance and evaluating the effectiveness of risk governance—internal audits test and report on risk controls, providing recommendations for improvement. External audits, on the

other hand, assess transparency and compliance with applicable regulations. This function reinforces accountability and transparency, two important values in the culture of risk governance (Chahine & Dagher, 2008; Fauziah et al., 2025). In making a more profound contribution to the auditor's duties and responsibilities within the culture of governance, Maulani et al. (2024) and Yulfiswandi et al. (2024) highlight the positive influence of auditors as primary shapers of the enterprise risk management value culture in Islamic banking.

Fifth, regulators, as external actors, also play a role in ensuring that Islamic banks implement effective risk governance. Regulators provide oversight and legal certainty that encourages the implementation of strict governance, while shareholders oversee directly through enterprise governance mechanisms. Collaboration between internal and external actors is crucial for mitigating significant risks and ensuring the stability and sustainability of Islamic bank operations (Elamer et al., 2020; Wijayanti & Setiawan, 2023; Mansoor et al., 2020).

Thus, the board of commissioners of the Sharia supervisory board, senior management, auditors, and regulators are the most influential actors in increasing the value of risk management culture in Islamic bank companies, as identified in the COSO approach.

Factors of Governance and Culture in Islamic Banks' Enterprise Risk Management

Governance and culture in risk management within Islamic banks are fundamental aspect that significantly impacts the effectiveness of risk management. Governance culture factors include the values, beliefs, and behaviours that guide risk management activities within an organisation. *First*, integrity is a key factor in building honesty and transparency in risk disclosure and compliance with Sharia principles, thereby increasing stakeholder trust. This integrity is the foundation for sound and sustainable governance in Islamic banks (Wijayanti et al., 2022; Nugraheni & Muhammad, 2019). The results of the study by Khalid (2020) and Yulfiswandi et al. (2024) indicate a strong relationship between building a culture of governance and the integrity factor in Islamic banking risk management.

Second, transparency is a crucial factor in the culture of risk management governance. Transparency facilitates accountability and enables early detection of potential risks, making governance more effective and preventing greater potential losses. Clear disclosure of risk and compliance information to regulators and the public strengthens institutional legitimacy and minimises operational risk (Srairi, 2019; Gusrianti & Violita, 2021).

Third, fairness in governance also plays a crucial role, particularly in ensuring that all stakeholders are treated fairly and there is no discrimination. This culture of justice fosters responsive governance and enhances trust in institutions, while maintaining the operational stability of Islamic banks. This justice is a fundamental value that bridges the relationship between banks and stakeholders in a sustainable manner (OECD, 2018; Pariela & Suparno, 2024).

Fourth, there is a strong supervisory role, with internal and external supervision as key pillars of the risk governance culture. Strengthening supervision by the Board of Commissioners and the Sharia Supervisory Board ensures that risks faced by banks are identified and addressed appropriately. Adequate supervision also strengthens Sharia governance and prevents banks from violating Sharia principles, thereby protecting their reputations and trust (Wijayanti & Setiawan, 2023; Mansoor et al., 2020).

Fifth, leadership is also a crucial factor in Islamic banks' risk management and governance culture. Leadership that understands and instils Sharia values into risk governance can strengthen organisational culture and direct all elements of the organisation to implement optimal risk

management. The active involvement of senior management and commitment to Sharia principles create an environment that supports responsible decision-making (Fatmawatie & Endri, 2022; Sitasari, 2021).

Thus, integrity, transparency, fairness, supervision, and leadership are influential factors in enhancing the value of risk management culture in Islamic bank companies, as identified in the COSO approach.

CONCLUSIONS AND RECOMMENDATIONS

The implementation of a governance and culture to enhance enterprise risk management in Islamic banking, supported by the Sharia compliance function, demonstrates that risk management and internal governance can be improved simultaneously, thereby making the Islamic banking organisation more transparent and trustworthy. There are four scope of enterprise risk management governance and culture in Islamic banking, namely the efficacy of explaining transparency, accountability and decision-making; the value of explaining integrity, justice, sharia principles, transparency and supervision; Actor explained as the Board of Commissioners of the Sharia Supervisory Board, Senior Management, Auditors and Regulators; and factors explaining integrity, transparency, fairness, supervision and leadership, these four value cultures are believed to increase the value of risk management culture of Islamic bank companies, in the COSO approach as the identification of key actors in the risk management culture of Islamic bank companies.

Further research is recommended to optimise synergies and collaborations among these key actors in light of changing regulations and the dynamics of the Islamic banking industry, enabling risk governance to adapt proactively to future challenges.

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