# Enterprise Risk Management in Islamic Banks: A Systematic Literature Review

**Ita Sitasari Tuhari[1*], Mohammadtahir Cheumar[2], Hardius Usman[3]**

**[1,2] Islamic Banking and Finance, Sultan Abdul Halim Mu'adzam Shah-UniSHAMS, Kedah, Malaysia**

**[1] Department of Islamic Banking, STEBank Islam Sjafruddin Prawiranegara, Jakarta, Indonesia**

**[3]Department of Applied Statistics, Politeknik Statistika STIS, Jakarta, Indonesia**

***Corresponding Author**

**DOI: https://doi.org/10.47772/IJRISS.2025.91200308**

**Received: 01 January 2026; Accepted: 07 January 2026; Published: 17 January 2026**

## ABSTRACT

This article aims to review and analyse the implementation of Enterprise Risk Management (ERM) in Islamic banking institutions, drawing on the existing academic literature. Islamic banks operate under unique principles derived from Sharia law, which require risk management practices not only to ensure financial stability but also to comply with ethical and religious standards. Through a comprehensive literature review, this study explores the concept, framework, and application of ERM in Islamic banks, highlighting key risk types, including credit risk, liquidity risk, operational risk, and Sharia compliance risk. The findings indicate that effective ERM plays a crucial role in enhancing governance quality, improving decision-making processes, and strengthening the resilience of Islamic financial institutions. However, the literature also reveals several challenges, including limited integration of Sharia governance within conventional ERM frameworks and a lack of standardised implementation across institutions. This study contributes to a deeper understanding of ERM practices in Islamic banking. It provides insights for future research and policy development to strengthen risk management frameworks in the Islamic finance industry.

**Keywords:** Enterprise Risk Management, Islamic Banking, Shariah Principles

## INTRODUCTION

In the increasingly complex and uncertain global financial environment, risk management has become a fundamental component of organisational sustainability, particularly within the banking sector. Banks are exposed to various risks, including credit, liquidity, operational, market, and reputational risks, which can significantly affect financial stability and performance. To address these challenges, Enterprise Risk Management (ERM) has emerged as a comprehensive and integrated framework that enables organisations to identify, assess, manage, and monitor risks in a holistic manner rather than in isolated silos (Anton & Nucu, 2020; Naik & Prasad, 2021).

In the context of Islamic banking, implementing ERM is more complex because it involves achieving financial performance while ensuring compliance with Sharia principles. Islamic banks operate under unique contractual arrangements such as mudharabah, musyarakah, and murabahah, which expose them to distinct risk profiles not commonly found in conventional banking (Khayat & Niskaromah, 2025; Ariffin, 2022). Additionally, the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation) necessitates a risk management framework that aligns not only with international risk standards but also with Islamic ethical and legal principles. This dual responsibility highlights the importance of integrating Sharia governance within the ERM framework (Lailiya & Kusumaningtias, 2024; Fuad et al., 2025).

Prior studies have extensively examined ERM from various perspectives, including its impact on firm performance González et al., (2020) and Abdiriva and Yaya (2025), managerial decision-making Crawford and Jabbour (2024), organisational governance Dabari and Saidin (2016), and strategic management (Lestari &

Nurhadianto, 2024). Several systematic literature reviews have also discussed the evolution, benefits, and challenges of ERM implementation across different sectors (Anton & Nucu, 2020; Fernandes et al., 2022; Damayanti, 2023). However, most of these studies focus on conventional financial institutions or adopt a general organisational perspective, with limited emphasis on the distinctive characteristics of Islamic banking.

Although a growing number of studies have explored risk management in Islamic financial institutions Noory et al., (2021), Hossain et al., (2025) and Syadali et al., (2023), the existing literature remains fragmented. Many studies address specific risk dimensions—such as credit risk, Sharia non-compliance risk, or governance issues—without providing a comprehensive synthesis of how ERM frameworks are conceptualised, implemented, and adapted within Islamic banking environments. Furthermore, the integration of emerging themes such as digitalisation, governance culture, and enterprise-wide risk alignment in Islamic banks remains underexplored (Fuad et al., 2025; Oti-Frimpong & Gyedu, 2023).

From a theoretical perspective, ERM is commonly grounded in frameworks such as the Committee of Sponsoring Organisations of the Treadway Commission (COSO) ERM framework and the ISO 31000 risk management standard. These frameworks emphasise risk governance, risk appetite, internal control, and strategic alignment. However, their application in Islamic banking requires contextual modifications to accommodate Sharia supervisory structures, ethical accountability, and profit-and-loss-sharing mechanisms. This theoretical gap indicates the need for a more integrative understanding of ERM that aligns conventional risk management theory with Islamic financial principles.

Based on the above discussion, a clear research gap emerges. While prior studies have examined ERM practices or risk management issues in Islamic banking separately, there remains a lack of comprehensive literature reviews that systematically synthesise findings on ERM implementation, challenges, governance structures, and future research directions within the Islamic banking context. Therefore, this study aims to fill this gap by conducting a structured literature review on Enterprise Risk Management in Islamic banks. The novelty of this research lies in its integrative approach, which not only maps existing academic discussions but also identifies theoretical, methodological, and practical gaps, offering a consolidated foundation for future empirical and conceptual research in Islamic banking risk management.

## METHOD

This study uses a literature review method, along with qualitative descriptive analysis, drawing on relevant previous research published in journals indexed in Google Scholar, Scopus, and Springer, as well as other online academic databases. The data sources included published articles or papers, including those in Google Scholar, Scopus, and Springer, with keywords such as enterprise risk management, ERM, Islamic banks, and literature review of ERM Islamic banks, covering the period 2015–2025. These journals were accredited English-language journals.

The inclusion criteria for this study include:

1. The topic is "enterprise risk management in an Islamic bank."

2. Published in a management, accounting, economics, or business journal.

3. Published during the 2015–2025 period.

Exclusion criteria include:

1. The topic is outside the topic of " enterprise risk management in Islamic banks."

2. Published outside a management, accounting, economics, or business journal.

3. Published outside the 2015–2025 period.

The process in the literature review research method can be described as follows.

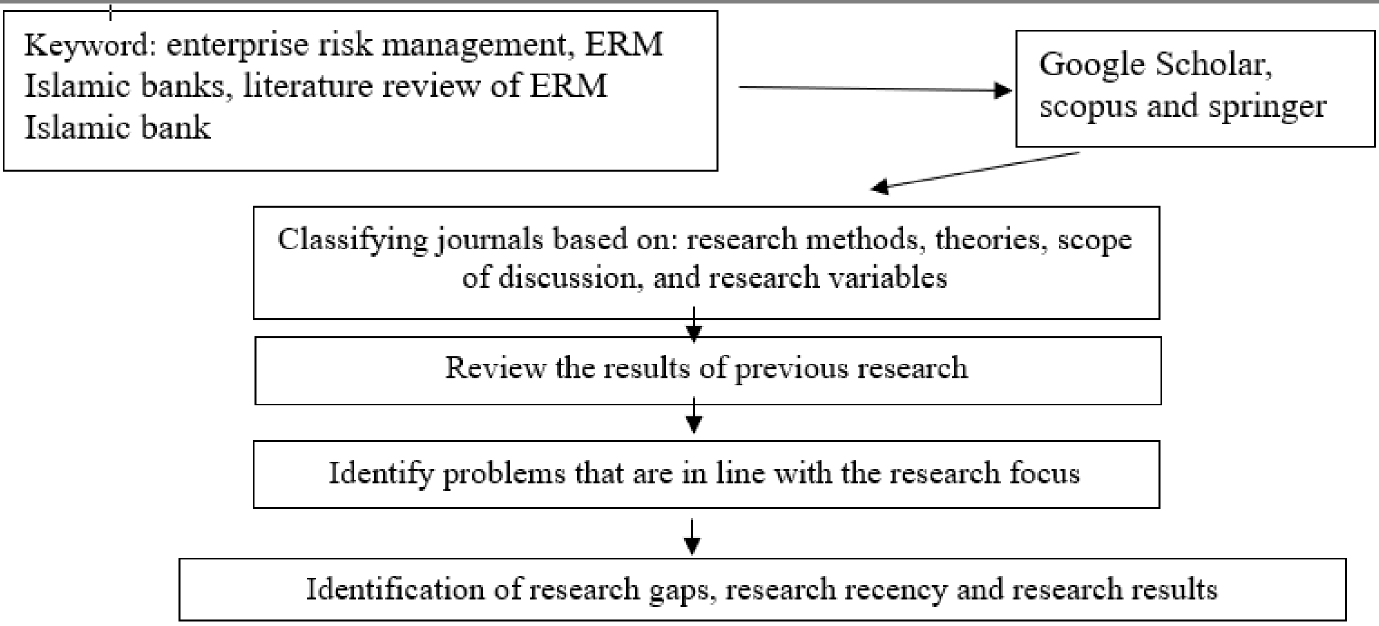


**Figure 1: Method of a literature review study**

This study categorises units of analysis by theory, methodology, research methods, and the study's scope. Research variables were identified to enrich the analysis. The first stage involved collecting journals with specific keywords, resulting in an initial 56 articles. After screening, 35 journals were eliminated for irrelevance, leaving 21 for review. These journals were summarised by author name, year of publication, journal name, research method, and main findings/ERM implementation.

## RESULTS

Published results of previous research relevant to this research can serve as a basis for the conclusion, as shown in the following table.

**Table 1: Determinants of ERM Implementation**

| Author(s) & Year | Journal | Research Method | Key Findings / Implementation of ERM |
|---|---|---|---|
| Abdiriva & Yaya (2025) | Journal of Accounting and Investment | Systematic Literature Review | ERM significantly enhances the performance and resilience of Islamic banking institutions. |
| Ahmad & Teo (2024). | International Journal of Academic Research in Business & Social Sciences | Literature Review | SMEs adopting ERM benefit from improved risk awareness and governance structure. |
| Anton & Nucu (2020). | Journal of Risk and Financial Management | Systematic Literature Review | ERM improves firm performance and risk governance; however, adaptation is required to account for sector-specific characteristics. |
| Ariffin (2022) | International Journal of Economics, Management and Accounting | Survey-Based Empirical Study | Sharia risk management improves governance quality and enhances stakeholder trust in Islamic banks. |
| Crawford & Jabbour (2024). | International Journal of Management Reviews | Systematic Review | Managerial judgment significantly influences risk assessment and strategic risk decisions. |

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue XII December 2025

| | | | |
|---|---|---|---|
| Dabari & Saidin (2016). | International Journal of Economics and Financial Issues | Quantitative (Panel Data) | Board characteristics significantly moderate the effectiveness of ERM implementation in banking institutions. |
| Dahliani et al. (2025). | International Journal for Sciences Review | Conceptual Analysis | Balancing risk management and Sharia compliance is essential under global economic uncertainty. |
| Damayanti (2023) | Formosa Journal of Science and Technology | Literature Review | ERM enhances organisational resilience when integrated into strategic planning. |
| Fernandes et al. (2022). | CONFIRM Proceedings | Systematic Literature Review | Information systems play a crucial role in supporting ERM effectiveness and integration. |
| Fuad et al. (2025). | AKTIVA: Journal of Accountancy and Management | Systematic Literature Review | Organisational culture and governance are critical in shaping effective ERM implementation. |
| González et al. (2020) | European Research on Management and Business Economics | Empirical Quantitative Study | ERM implementation positively affects firm performance and reduces operational risk. |
| Gustanto et al. (2025). | Journal of Principles Management and Business | Conceptual & Qualitative Analysis | Integration of artificial intelligence enhances risk monitoring and strategic responsiveness in Islamic banks. |
| Hossain et al. (2025). | Journal of Research and Innovation in Social Science | Systematic Literature Review | Identifies gaps in empirical ERM studies and calls for integrated Islamic risk frameworks. |
| Khayat & Niskaromah (2025). | mZabags International Journal of Economy | Literature Review | Risk management in mudharabah and musyarakah requires greater monitoring due to the complexity of profit-and-loss sharing. |
| Lailiya & Kusumaningtias (2024). | Proc. Int. Conf. on Accounting and Finance | Qualitative Analysis | Sharia non-compliance poses a significant reputational and financial sustainability risk for Islamic banks. |
| Lestari & Nurhadianto (2024). | Journal of Economic Business Innovation | Quantitative Study | ERM dimensions significantly contribute to increased firm value. |
| Naik & Prasad (2021). | Journal of Finance and Banking Review | Literature Review | ERM improves decision-making quality and long-term sustainability. |
| Noory et al. (2021). | Asian Journal of Accounting and Governance | Systematic Literature Review | ERM positively influences Islamic bank performance by enhancing risk identification, improving governance quality, and facilitating strategic decision-making. |

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue XII December 2025

| | | | |
|---|---|---|---|
| Oti-Frimpong & Gyedu (2023) | Int. Journal of Recent Research in Commerce, Economics, and Management | Bibliometric Review | ERM research has expanded globally; however, Islamic banking studies remain limited and require deeper empirical investigation. |
| Sermhattakit & SaeLim (2025). | INQUIRY Journal | MixedMethod Study | Identifying key enterprise risks enhances the effectiveness of strategic decision-making. |
| Syadali et al. (2023) | Enrichment: Journal of Management | Descriptive Analysis | Effective credit risk management reduces default risk in Islamic commercial banking. |

Noory et al (2021) conducted a systematic literature review to examine how risk management practices influence the performance of Islamic banking institutions. Their study finds that well-structured risk management frameworks positively affect Islamic bank performance by enhancing risk identification, strengthening governance mechanisms, and supporting strategic decision-making. The authors argue that risk management in Islamic banks is most effective when integrated with Sharia principles, thereby enhancing financial stability and institutional credibility. Oti-Frimpong and Gyedu (2023) conducted a bibliometric review of Enterprise Risk Management research to map its global development and identify future research directions. Their findings indicate that ERM research has expanded significantly across industries and regions, reflecting its growing importance as a strategic management tool. However, this study does not highlight the implementation of ERM in Islamic banks; this study supports the theory of implementing ERM in companies. Gustanto et al (2025) explored risk management strategies in Islamic banks through a conceptual and qualitative approach, emphasising the role of artificial intelligence. Their study reveals that integrating AI technologies enhances risk monitoring accuracy, predictive capabilities, and strategic responsiveness. The authors conclude that AI-driven ERM systems enable Islamic banks to manage complex risks more effectively while supporting informed managerial decision-making. Anton and Nucu (2020) provided a comprehensive literature review on Enterprise Risk Management and proposed an agenda for future research. Their analysis demonstrates that ERM contributes positively to firm performance and strengthens risk governance by promoting an enterprise-wide perspective on risk. However, they emphasise that ERM frameworks must be adapted to sector-specific characteristics, including regulatory environments and operational complexities, to achieve optimal effectiveness.

Khayat & Niskaromah (2025) reviewed the literature on risk management in mudharabah and musyarakah financing within Islamic banking. Their study highlights that profit-and-loss-sharing contracts entail greater uncertainty and agency risk than debt-based instruments. As a result, they argue that Islamic banks must implement stronger monitoring and control mechanisms within ERM frameworks to manage these financing risks effectively. Lailiya and Kusumaningtias (2024) examined the impact and management of Sharia noncompliance risk in Islamic banking using a qualitative approach. Their findings indicate that Sharia noncompliance poses serious risks to reputation, financial sustainability, and stakeholder trust. The study underscores the importance of integrating Sharia compliance controls into ERM systems to safeguard institutional legitimacy and long-term viability. Dabari and Saidin (2016) investigated the moderating role of board characteristics on ERM implementation in the Nigerian banking sector using panel data analysis. Their results show that board size, independence, and expertise significantly influence the effectiveness of ERM practices. The study suggests that strong corporate governance structures enhance the successful adoption and implementation of ERM in banking institutions. Ariffin (2022) conducted an empirical survey on Sharia risk management practices in Malaysian Islamic banks. The findings reveal that effective Sharia risk management improves governance quality and strengthens stakeholder confidence. The study highlights the importance of integrating Sharia governance mechanisms, such as Sharia supervisory boards, into enterprise-wide risk management frameworks.

Syadali et al. (2023) analysed risk management strategies for financing and borrowing issues in Islamic commercial banks using a descriptive approach. Their study finds that effective credit risk management significantly reduces default risk and improves asset quality. The authors conclude that structured risk management practices are essential for maintaining financial stability in Islamic banking operations. Abdiriva & Yaya (2025) conducted a systematic literature review to assess the impact of risk management practices on the performance of Islamic banking institutions. Their findings consistently show that integrated ERM practices enhance financial performance, operational efficiency, and institutional resilience. The study reinforces the strategic role of ERM in strengthening the sustainability of Islamic banks. Fuad et al (2025) reviewed the literature on governance and organisational culture in Islamic banking ERM. Their analysis reveals that ethical values, governance structures, and risk-aware cultures play a critical role in shaping effective ERM implementation. The authors emphasise that ERM maturity in Islamic banks is closely linked to organisational commitment and cultural alignment with Islamic principles. Naik & Prasad (2021) examined the benefits of Enterprise Risk Management through a systematic review of the literature. Their study finds that ERM improves decision-making quality, enhances risk awareness, and supports long-term organisational sustainability. The authors view ERM as a strategic tool that enables firms to balance risk mitigation and value creation.

Fernandes et al (2022) explored the relationship between ERM and information systems through a systematic literature review. Their findings indicate that information systems play a crucial role in supporting ERM effectiveness by facilitating data integration, cross-functional coordination, and real-time risk reporting. The study highlights the growing importance of digital infrastructure in modern ERM frameworks. Crawford & Jabbour (2024) conducted a systematic literature review examining the relationship between ERM and managerial judgment in decision-making. Their study demonstrates that managerial judgment significantly influences how risks are assessed and incorporated into strategic decisions. The authors argue that ERM effectiveness depends not only on formal systems but also on managerial interpretation and cognitive processes. Dahliani et al (2025) provided a conceptual analysis of the paradox between risk management and Sharia compliance in Islamic banks under global economic uncertainty. Their study highlights the challenge Islamic banks face in balancing risk-taking for competitiveness with strict adherence to Sharia principles. They conclude that ERM serves as a critical mechanism for navigating this paradox and maintaining strategic stability. Hossain et al (2025) conducted a systematic literature review on risk management in the Islamic banking system. Their study identifies significant gaps in empirical research and emphasises the need for integrated risk management frameworks that incorporate both conventional and Sharia-based risks. The authors propose future research directions to advance ERM theory and practice in Islamic finance.

Damayanti (2023) reviewed the literature on risk management and concluded that ERM enhances organisational resilience when embedded within strategic planning processes. The study emphasises that ERM should function as a core managerial capability rather than a standalone control mechanism, enabling organisations to respond proactively to uncertainty. González, et al (2020) empirically examined the effect of ERM on risk and performance in Spanish listed companies. Their quantitative analysis shows that ERM implementation reduces operational risk and improves firm performance. Although the study focuses on non-Islamic firms, its findings provide strong empirical support for the value-creating role of ERM. Ahmad and Teo (2024) reviewed the literature on ERM implementation in small and medium enterprises. Their study finds that SMEs adopting ERM frameworks benefit from improved risk awareness, better governance structures, and enhanced strategic planning. These findings are relevant for smaller Islamic financial institutions seeking to strengthen their risk management capabilities. Sermhattakit and Sae-Lim (2025) employed a mixed-method approach to identify key enterprise risks and mitigation strategies in private hospitals. Their findings demonstrate that systematic risk identification improves the effectiveness of strategic decision-making. Although conducted in the healthcare sector, the study offers transferable insights into cross-sector ERM implementation. Lestari and Nurhadianto (2024) investigated the impact of ERM dimensions on company value using a quantitative approach. Their results indicate that ERM significantly increases firm value by improving risk management, governance, and strategic alignment. The study supports the argument that ERM functions not only as a risk mitigation tool but also as a driver of value creation.

# DISCUSSION

### Implementation of Enterprise Risk Management in Islamic Banking

The increasing volatility of global financial markets, coupled with regulatory pressures and technological disruption, has positioned Enterprise Risk Management (ERM) as a strategic necessity for modern financial institutions. In Islamic banking, the role of ERM becomes even more critical, given the sector's dual obligation to achieve financial soundness while maintaining strict adherence to Sharia principles. Unlike conventional banks, Islamic banks operate under a value-based financial system that prohibits interest (riba), excessive uncertainty (gharar), and speculative activities (maysir), thereby requiring a more nuanced and ethically grounded risk management framework (Ariffin, 2022; Lailiya & Kusumaningtias, 2024).

The literature consistently emphasises that ERM in Islamic banking extends beyond the technical identification and mitigation of financial risks. It encompasses a holistic governance mechanism that integrates Sharia compliance, ethical accountability, and stakeholder trust into organisational decision-making (Noory et al., 2021; Fuad et al., 2025). This dual-layered responsibility distinguishes Islamic banks from their conventional counterparts and necessitates adapting existing ERM frameworks to reflect Islamic epistemological foundations.

Most Islamic financial institutions adopt globally recognised ERM frameworks such as the Committee of Sponsoring Organisations of the Treadway Commission (COSO ERM) and ISO 31000 as structural references. However, scholars argue that these frameworks, developed initially within conventional financial paradigms, are insufficient when applied without modification to Islamic banking contexts (Khayat & Niskaromah, 2025). Specifically, conventional ERM models emphasise shareholder value maximisation and risk-return optimisation, whereas Islamic finance prioritises risk-sharing, ethical compliance, and socio-economic justice. Consequently, effective ERM in Islamic banking requires contextualization that integrates Sharia governance mechanisms, such as Sharia Supervisory Boards (SSBs), fatwa-compliance processes, and internal Sharia audits, into the broader enterprise risk architecture (Ariffin, 2022).

ERM in Islamic banks functions not merely as a defensive mechanism but as a strategic tool that supports sustainable growth. By aligning risk appetite with Sharia objectives (maqasid al-shariah), Islamic banks can enhance resilience, transparency, and stakeholder confidence. This conceptual alignment reinforces the argument that ERM in Islamic banking should be understood as an integrated governance system rather than a technical risk control function.

The literature identifies several interrelated risk categories that shape Islamic banks' risk profiles, encompassing both conventional financial exposures and Sharia-specific vulnerabilities. Among these, credit risk remains the most prominent due to the nature of Islamic financing contracts such as murabahah, mudharabah, and musyarakah. These contracts expose Islamic banks to higher levels of counterparty risk, moral hazard, and information asymmetry, particularly in profit-and-loss sharing arrangements where returns are uncertain and heavily dependent on the performance and integrity of business partners (Syadali et al., 2023).

Liquidity risk represents another critical challenge, as Islamic banks face structural constraints in accessing Sharia-compliant liquidity instruments and interbank markets. The limited availability of Islamic money market instruments often restricts banks’ ability to manage short-term liquidity shocks effectively, increasing their vulnerability during periods of financial stress (Noory et al., 2021). This constraint underscores the need for robust liquidity risk management frameworks tailored to Islamic financial operations.

Operational risk also features prominently in the literature, encompassing failures in internal processes, human resources, information systems, and governance mechanisms. Dabari and Saidin (2016) emphasise that weaknesses in internal controls and board oversight significantly exacerbate operational risk exposure, particularly in environments where governance structures are still evolving. In Islamic banks, operational risk is further compounded by the complexity of ensuring continuous Sharia compliance across all products and transactions.

A distinctive risk category unique to Islamic banking is Sharia non-compliance risk. Failure to adhere to Sharia principles not only results in financial losses—such as income purification and reputational damage- but also undermines stakeholder trust and institutional legitimacy (Lailiya & Kusumaningtias, 2024). This form of risk underscores the inseparable link between ethical governance and risk management in Islamic finance, positioning Sharia compliance as both a moral and strategic imperative.

Emerging risks associated with digital transformation have also gained increasing attention in recent literature. The adoption of financial technologies, artificial intelligence, and data-driven decision-making introduces new cybersecurity, data privacy, algorithmic bias, and model risk vulnerabilities. Gustanto et al. (2025) argue that while technological innovation enhances operational efficiency and risk monitoring capabilities, it simultaneously demands more sophisticated ERM frameworks capable of managing technological and ethical uncertainties in line with Islamic values.

From a theoretical standpoint, Enterprise Risk Management (ERM) in Islamic banking is underpinned by a multidimensional framework that integrates conventional risk management theories with Islamic ethical and governance principles. At its core, ERM draws heavily on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework, which conceptualises risk management as an enterprise-wide process encompassing risk identification, assessment, response, monitoring, and communication. The COSO ERM model emphasises alignment between risk appetite, strategic objectives, and organisational performance, making it a foundational reference for financial institutions globally (Anton & Nucu, 2020).

The applicability of conventional ERM frameworks in Islamic banking requires critical adaptation. Unlike conventional financial institutions, Islamic banks operate within a value-based financial system that prohibits interest (riba), excessive uncertainty (gharar), and speculative transactions (maysir). Consequently, ERM in

Islamic banking cannot be solely grounded in efficiency and shareholder value maximisation but must also incorporate ethical accountability and Sharia compliance as core risk dimensions. This distinction positions Islamic ERM within a broader normative framework that integrates economic, legal, and moral considerations (Ariffin, 2022).

From a theoretical lens, agency theory offers valuable insights into risk governance in Islamic banks by highlighting potential conflicts of interest between management, shareholders, depositors, and investment account holders. However, in Islamic finance, agency relationships are further complicated by the presence of Sharia Supervisory Boards (SSBs), which serve as an additional governance layer ensuring compliance with Islamic principles. This multi-tiered governance structure necessitates a more complex risk oversight mechanism than that found in conventional banking systems (Dabari & Saidin, 2016).

Stakeholder theory further enriches the understanding of ERM in Islamic banking by emphasising the bank's responsibility to a broad set of stakeholders, including depositors, investors, regulators, employees, and the wider Muslim community. In this context, risk management is not solely a tool for protecting shareholder value but also a mechanism for safeguarding stakeholder trust and promoting socio-economic justice (*maqasid alshariah*). This perspective reinforces the view that effective ERM contributes not only to financial stability but also to ethical legitimacy and social sustainability (Hossain et al., 2025).

Moreover, institutional theory provides an explanatory lens for understanding the convergence and divergence of ERM practices across Islamic banking jurisdictions. Regulatory environments, cultural norms, and levels of market maturity shape how ERM frameworks are adopted and implemented, as highlighted by Oti-Frimpong and Gyedu (2023). Variations in regulatory enforcement and institutional capacity significantly influence the depth and effectiveness of ERM practices across different regions.

**Determining Factors in Adopting Enterprise Risk Management in Islamic Banks**

Governance is consistently identified as a key determinant of ERM adoption. Dabari and Saidin (2016) find that board size, independence, and expertise significantly influence ERM implementation in banks. In Islamic banks, the presence and effectiveness of Sharia Supervisory Boards add another governance layer that shapes ERM adoption (Fuad et al., 2025). Fuad et al. (2025) emphasise that organisational culture and governance values rooted in Islamic ethics strengthen ERM adoption by fostering accountability, transparency, and risk awareness. Regulatory pressure is a major driver of ERM adoption. Ahmad and Teo (2024) argue that compliance requirements encourage financial institutions to adopt ERM frameworks systematically. For Islamic banks, regulatory guidelines from central banks and Islamic financial authorities mandate integrating Sharia risk into ERM systems (Ariffin, 2022). Hossain et al. (2025) identify regulatory harmonisation and Sharia governance frameworks as critical enablers for standardised ERM adoption across Islamic banking systems globally.

Institutional characteristics such as bank size, operational complexity, and resource availability significantly affect ERM adoption. Anton and Nucu (2020) suggest that larger banks with diversified operations are more likely to implement sophisticated ERM frameworks. This is echoed by Oti-Frimpong and Gyedu (2023), who note that organisational maturity and strategic orientation influence ERM adoption levels. In Islamic banks, resource constraints may limit ERM sophistication, particularly in smaller institutions (Ahmad & Teo, 2024).

Risk culture and managerial perception play a crucial role in ERM adoption. Crawford and Jabbour (2024) find that ERM adoption enhances managerial judgment in decision-making by providing structured risk information.

Islamic banks with strong risk-aware cultures are more likely to institutionalise ERM practices (Noory et al., 2021). Damayanti (2023) highlights that leadership commitment and risk awareness among top management significantly influence the success of ERM implementation.

Global economic uncertainty and market competition also drive ERM adoption. Dahliani et al. (2025) argue that Islamic banks adopt ERM as a strategic response to macroeconomic volatility and financial crises. Sermhattakit and Sae-Lim (2025), although focused on healthcare institutions, support the broader argument that external risk exposure encourages enterprise-wide risk management adoption.

**The Effectiveness of the ERM Process in an Islamic Bank**

The effectiveness of enterprise risk management processes in Islamic banks is primarily determined by how well risk identification, assessment, mitigation, and monitoring are integrated across organisational functions. Noory et al. (2021) highlight that effective risk management practices in Islamic banking institutions contribute positively to financial performance when risks are managed holistically rather than in isolated operational units. Their systematic review demonstrates that Islamic banks with structured ERM frameworks tend to be more stable, particularly during periods of economic uncertainty. This effectiveness stems from aligning risk appetite with Sharia principles, which discourage excessive speculation and promote asset-backed financing.

Abdiriva and Yaya (2025) further reinforce this argument by showing that the effectiveness of ERM processes in Islamic banks is closely associated with improved profitability, reduced volatility, and enhanced stakeholder confidence. Their review indicates that Islamic banks that integrate ERM into strategic decision-making processes are better positioned to manage financing, liquidity, and operational risks. The effectiveness of ERM, therefore, extends beyond compliance to value creation and long-term performance.

A distinctive element affecting ERM effectiveness in Islamic banks is the management of Sharia risk and Sharia non-compliance risk. Ariffin (2022) emphasises that effective Sharia risk management practices in Malaysian Islamic banks depend on the formal integration of Sharia governance mechanisms within ERM structures. This includes the involvement of Sharia Supervisory Boards, internal Sharia audits, and continuous compliance monitoring. Lailiya and Kusumaningtias (2024) argue that ineffective management of Sharia non-compliance risk can undermine trust in the reputation and financial performance, thereby weakening the overall effectiveness of ERM systems.

The literature also highlights that ERM effectiveness in Islamic banks is influenced by the ability to manage contract-specific risks associated with profit-and-loss-sharing instruments. Khayat and Niskaromah (2025) find that mudharabah and musyarakah financing introduce higher levels of uncertainty and agency risk, requiring more rigorous risk assessment and monitoring mechanisms. When ERM processes adequately capture these contract-specific risks, Islamic banks demonstrate improved financing quality and reduced default risk, thereby enhancing overall risk management effectiveness.

Beyond core risk processes, recent studies emphasise the importance of ERM as a cross-domain and organisation-wide framework. Anton and Nucu (2020) describe ERM as an enterprise-level system that transcends traditional risk silos by integrating financial, operational, strategic, and compliance risks into a unified framework. In Islamic banks, this cross-domain nature of ERM is particularly relevant because risks are interdependent; for instance, Sharia non-compliance risk can rapidly translate into reputational and liquidity risks. Oti-Frimpong and Gyedu (2023), in their bibliometric review, observe that ERM research is increasingly focusing on interconnections across risk domains, signalling a shift toward more integrated and dynamic risk management approaches.

ERM strategy also plays a significant role in shaping how Islamic banks respond to internal and external uncertainties. Syadali et al. (2023) demonstrate that Islamic commercial banks adopt ERM strategies to address financing and borrowing challenges by aligning risk controls with strategic objectives. This strategic orientation of ERM enables banks to balance growth ambitions with prudent risk-taking, consistent with Islamic financial principles. Dahliani et al. (2025) further illustrate this strategic tension by describing a paradox between risktaking and Sharia compliance, where Islamic banks must navigate global economic uncertainty while maintaining strict adherence to ethical constraints. Effective ERM strategies help resolve this paradox by embedding Sharia considerations into enterprise-level risk decisions.

Another emerging dimension in the literature is ERM maturity, which refers to the extent to which ERM is institutionalised within organisational culture and processes. Damayanti (2023) suggests that ERM maturity is reflected in leadership commitment, risk-aware culture, and continuous improvement mechanisms. Fuad et al. (2025) extend this view in the context of Islamic banking, emphasising that governance structures and Islamic organisational culture significantly influence ERM maturity levels. Their findings suggest that Islamic banks with strong ethical values and transparent governance systems tend to demonstrate higher ERM maturity, resulting in more consistent and effective risk management practices.

Institutional and regulatory contexts also shape the adoption and effectiveness of ERM in Islamic banks. Dabari and Saidin (2016) highlight that board characteristics, including expertise and independence, moderate the implementation of ERM in banking institutions. In Islamic banks, the presence of Sharia Supervisory Boards adds an institutional layer that affects ERM adoption and implementation. Hossain et al. (2025) argue that regulatory frameworks and institutional support are critical in shaping the adoption of standardised ERM across Islamic banking systems, particularly in developing economies.

Technological advancement further expands the scope of ERM in Islamic banks. Gustanto et al. (2025) demonstrate that artificial intelligence enhances the effectiveness of ERM by improving risk prediction, early warning systems, and decision accuracy. Fernandes et al. (2022) similarly emphasise the role of information systems in strengthening ERM integration and cross-functional coordination. These technological dimensions suggest that modern ERM in Islamic banks increasingly operates across digital, operational, and strategic domains.

**Research Gaps and Emerging Themes**

Despite the growing scholarly attention to ERM in Islamic banking, the literature reveals several substantive gaps that warrant further investigation. A notable gap exists in the predominance of descriptive and conceptual studies, with relatively limited empirical research employing robust quantitative or mixed-methods approaches. While existing studies provide valuable insights into ERM structures and challenges, they often lack longitudinal analysis that captures the dynamic evolution of risk management practices over time (Abdiriva & Yaya, 2025).

Another significant gap relates to the limited exploration of the interaction between ERM and Sharia governance mechanisms. Although several studies acknowledge the importance of Sharia compliance, few empirically examine how Sharia Supervisory Boards, internal Sharia audit functions, and governance culture collectively influence risk-taking behaviour and organisational performance. This gap underscores the need for integrative models that explicitly link governance structures with risk outcomes in Islamic financial institutions (Fuad et al., 2025).

The rapid advancement of digital technologies introduces new layers of complexity that remain underexplored in the Islamic banking literature. While recent studies highlight the potential of artificial intelligence, big data analytics, and fintech solutions in enhancing risk identification and monitoring (Gustanto et al., 2025), empirical evidence on their implementation, effectiveness, and ethical implications within Sharia-compliant frameworks remains scarce. This gap is particularly salient given the increasing reliance on digital platforms and algorithmic decision-making in financial services.

Another underdeveloped area concerns the behavioural and cultural dimensions of risk management. Existing studies tend to focus on structural and procedural aspects of ERM, often overlooking the influence of organisational culture, leadership behaviour, and risk awareness on the effectiveness of risk management systems. Understanding how cultural norms, religious values, and managerial cognition shape risk perception and decision-making is essential for developing contextually grounded ERM models in Islamic banking (Fuad et al., 2025).

The literature lacks cross-country comparative studies examining how differing regulatory environments, levels of market maturity, and socio-cultural contexts affect ERM implementation in Islamic banks. Such comparative analyses are crucial for identifying best practices and developing adaptable frameworks that can be applied across diverse Islamic financial systems.

**Synthesis and Implications for Theory and Practice**

From a theoretical perspective, advancing the study of ERM in Islamic banking requires integrating multiple theoretical lenses, including agency theory, stakeholder theory, institutional theory, and Islamic moral economy. Such theoretical pluralism enables a more comprehensive understanding of how risk governance operates within complex organisational and ethical environments (Hossain et al., 2025). It also facilitates the development of context-sensitive models that reflect both economic rationality and normative commitments.

From a practical standpoint, the findings underscore the importance of strengthening the integration of Sharia governance within enterprise-wide risk management systems. Islamic banks are encouraged to enhance coordination between risk management units, Sharia supervisory boards, and senior management to ensure consistent risk oversight and ethical compliance. Moreover, investment in data-driven risk management tools and capacity-building initiatives is essential to address emerging risks associated with digital transformation and financial innovation (Gustanto et al., 2025).

While significant progress has been made in understanding ERM within Islamic banking, the field remains characterised by conceptual fragmentation and empirical limitations. Addressing these challenges requires a more holistic, interdisciplinary, and empirically grounded research agenda. Such efforts will not only enrich academic discourse but also contribute to the development of more resilient, ethical, and sustainable Islamic banking systems in an increasingly complex global financial landscape.

## CONCLUSION AND RECOMMENDATIONS

This study highlights that Enterprise Risk Management (ERM) plays a vital role in enhancing the resilience, governance quality, and sustainability of Islamic banking institutions. The findings indicate that effective ERM implementation in Islamic banks must integrate conventional risk management frameworks with Sharia-based principles, ensuring alignment between financial performance, ethical values, and regulatory compliance. The literature consistently demonstrates that robust ERM practices contribute to improved risk control, organisational stability, and stakeholder confidence. The review also reveals several limitations in existing studies, including limited empirical evidence, insufficient integration of Sharia governance into ERM frameworks, and a lack of comprehensive analysis of emerging risks, such as digital transformation. These gaps indicate the need for more systematic and context-sensitive approaches to ERM in Islamic banking. It is recommended that Islamic banks strengthen the integration of Sharia governance into enterprise-wide risk management, enhance risk culture and leadership commitment, and adopt advanced analytical tools to manage evolving risks. Future research should focus on empirical and comparative studies across jurisdictions to deepen understanding of ERM effectiveness and support the development of more robust, adaptive risk management frameworks in Islamic banking.

## REFERENCES

1. Abdiriva, B., & Yaya, R. (2025). Risk management practices and their impact on the performance of Islamic banking institutions: A systematic literature review. Journal of Accounting and Investment, 26(3), 927–946. https://doi.org/10.18196/jai.v26i3.27342
2. Ahmad, S. A. & Teo, P (2024). The Implementation of Enterprise Risk Management (ERM) Frameworks in Small and Medium Enterprises (SMES): A Literature Review. International Journal of Academic Research in Business & Social Science. 14 (9), 290–308, http://dx.doi.org/10.6007/IJARBSS/v14i9/22353
3. Anton, S. G., & Nucu, A. E. A. (2020). Enterprise Risk Management: A Literature Review and Agenda for Future Research. Journal of Risk and Financial Management, 13(11), 281. https://doi.org/10.3390/jrfm13110281
4. Ariffin, N. M. (2022). Shariah Risk Management Practices in Malaysian Islamic Banks. International Journal of Economics, Management and Accounting, 30(1), 101–123. https://doi.org/10.31436/ijema.v30i1.924
5. Crawford, J. & Jabbour, M. (2024). The relationship between enterprise risk management and managerial judgement in decision-making: A systematic literature review. International Journal of Management Reviews, 26, 110–136. https://doi.org/10.1111/ijmr.12337
6. Dabari, I. J., & Saidin, S. Z (2016). A Moderating Role of Board Characteristics on Enterprise Risk Management Implementation: Evidence from the Nigerian Banking Sector. International Journal of Economics and Financial Issues. 6(54). www.econjournals.com

7. Dahliani, Y., Wafa, F. E., & Supendi (2025). The Paradox of Risk and Sharia Compliance: Analysing Islamic Bank Strategies in Navigating Global Economic Uncertainty. International journal for sciences Review. 2(5), 320–329,
8. Damayanti, E. S. (2023). Risk Management: An Overview of Literature Review. Formosa Journal of Science and Technology (FJST). 2(4), 1115–1122, https://doi.org/10.55927/fjst.v2i4.3837
9. Fernandes, Andre D.; Ramalho, Daniel; & Mira da Silva, Miguel, "Enterprise Risk Management and Information Systems: a Systematic Literature Review" (2022). CONF-IRM 2022 Proceedings. 11. https://aisel.aisnet.org/confirm2022/11
10. Fuad, I. A., Cheumar, M., Pramono, S., & Muhammedi, S. (2025). The Governance and Culture in Islamic Banking Enterprise Risk Management: A Systematic Literature Review. AKTIVA: Journal of Accountancy and Management, 3(2), 102–118. https://doi.org/10.24260/aktiva.v3i2.5050
11. González, L. O., Santomil, P. D., & Herrera, A. T. (2020). The effect of Enterprise Risk Management on risk and performance of Spanish-listed companies. European Research on Management and Business Economics. 26(2020), 111–120. https://doi.org/10.1016/j.iedeen.2020.08.002
12. Gustanto, E. S., Nugroho, A. P., & Yahya, M. A. (2025). Risk Management Strategy In Islamic Banks: An Artificial Intelligence Approach. Journal of Principles Management and Business. 4(1), 33–48.
13. Hossain, M. A., Rosman, R., Jahan, N., Afroz, S., & Afroza, K. (2025). A Systematic Literature Review of Risk Management in the Islamic Banking System: Research Agenda and Future Directions. International Journal Of Research And Innovation In Social Science. 9(3), 1193–1210, https://dx.doi.org/10.47772/IJRISS.2025.90300093
14. Khayat, A.A. N & Niskaromah, W. (2025). A Literature Review on Risk Management in Mudharabah and Musyarakah Financing Products within the Context of Islamic Banking. MZabags International Journal of Economy. 3(2), 271–280, https://doi.org/10.61233/zijec.v3i2.116
15. Lailiya & Kusumaningtias, R. (2024). Impact and risk management of sharia non-compliance in islamic banking. Proceedings of the International Conference on Accounting and Finance. 2 (2024), 583-593
16. Lestari, A., & Nurhadianto, T. (2024). The Impact of the Implementation of Enterprise Risk Management Dimensions on Increasing Company Value. Journal of Economic Business Innovation, 1(1), 34–42. https://doi.org/10.69725/jebi.v1i1.5
17. Naik, S; Prasad, Ch. V.V.S.N.V. (2021). Benefits of Enterprise Risk Management: A Systematic Review of Literature, Journal of Finance and Banking Review, 5 (4): 28 – 35. https://doi.org/10.35609/jfbr.2021.5.4(3)
18. Noory, S. N., Shahimi, S., Ismail, A. G. (2021). A Systematic Literature Review on the Effects of Risk Management Practices on the Performance of Islamic Banking Institutions. Asian Journal of Accounting and Governance. 16: 53–75, http://dx.doi.org/10.17576/AJAG-2021-16-05
19. Oti-Frimpong, J. & Gyedu, S. (2023). Enterprise Risk Management (ERM): A bibliometric review and future agenda. International Journal of Recent Research in Commerce, Economics, and Management. 10(1), 122-140, https://doi.org/10.5281/zenodo.7785389
20. Sermhattakit, A. & Sae-Lim, P. (2025). Key Risks and Mitigation Strategies in Enterprise Risk Management for Private Hospitals: A Mixed-Method Study. INQUIRY: The Journal of Health Care Organisation, Provision, and Financing. 62 (2025). 1–13, https://doi.org/10.1177/00469580251347132
21. Syadali, M. R., Segaf, S., & Parmujianto, P. (2023). Risk management strategy for the problem of borrowing money for Islamic commercial banks. Enrichment: Journal of Management, 13(2), 1227-1236. 96-104, https://doi.org/10.35335/enrichment.v13i2.1392