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SHARIA BUSINESS RISK MANAGEMENT: A LITERATURE REVIEW

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ABSTRACT
This article aims to analysis risk management from an Islamic economic perspective. The approach used in writing this article consists of quantitative and qualitative. The data used comes from Scopus-indexed articles collected via Publish or Perish (PoP) software. To map article themes, researchers used the help of VOS viewer software. Based on the results of data processing, shows that the research trend related to the theme of risk management is increasing every year. Other results show that from an Islamic economic perspective risk management plays a positive and significant role in overcoming business risks.

Keywords: risk management, Islamic business, Sharia banking

Doi:

INTRODUCTION

Business people will always face risks in carrying out their business activities. This is due to the natural character of the business itself, where one of the characteristics of business is the uncertainty of losses and profits. Businesses that have a weak capital background cause risks that result in operational disruption, and financial losses and can even lead to bankruptcy. In terms of type and form, risks can be classified in large numbers, however, risks can be identified early so that possible impacts can be prevented. Most businesses rarely manage risk and carry out strategic management in their business.

Several literatures related to financing risk management state that risk management is very important in various economic, financial, and business activities. (Ahmed & Malik, 2015; Byoun et al., 2013; Chan, 2018; Cornford, 1996; El Tiby & Grais, 2015; Fenn & Egan, 2012; Gao et al., 2008; Gündoğdu, 2016; Hu et al. , 2007; Irizepova, 2015; Ke et al., 2011; Krokhmal et al., 2006; Liu, 2019; Ma, 2020; Mavetera et al., 2014; Srivastava, 2017; Tallaki & Bracci, 2021; Turrin, 1998; Varkey & Kumar, 2013).

Meanwhile, regarding risks in Sharia banking, several studies state that the risks faced by Sharia banking are also very significant and more complicated when compared to conventional banks, this is due to the unique features of contracts and the general legal environment. Contract complexity can increase the risk of Islamic banks. (Akram & Rahman, 2018; Alhammadi et al., 2020; Basah et al., 2018; Elgharbawy, 2020; Masood et al., 2017; Mohammad et al., 2020; Rehman et al., 2018; Shah et al. , 2020; Yustianita & Purwanto, 2018)

Regarding liquidity risk management, several studies state that the relationship between financial institution size, return on assets, return on equity, and capital adequacy ratio with liquidity risk measurement is positive and important in both Islamic banks and conventional banks (Abdel Megeid, 2017; Corbett & Smodis, 2018; Deng & Ong, 2018; Ippolito et al., 2016; Masood et al., 2017; Mian & Santos, 2018; Mohammad et al., 2020; Scannella, 2016; Thaiyalnayaki & Reddy, 2017).

Based on the description above, it indicates that a lot of research has been carried out related to risk management and on the other hand shows the importance of risk management in business.

Based on these considerations, this research aims to conduct a literature review, discuss aspects of the risk management literature, and provide direction for future theoretical and empirical research. The proposed research formulation is how developments are related to the theme of Sharia risk management, how is Sharia risk management in financing, how is Sharia risk management in Sharia banks and how is Sharia risk management related to liquidity.

LITERATURE REVIEW

Sharia Business

Business is a trading venture; or commercial venture in the world of trade; or business sector. (KKBI in Sutan, 2018). Sharia business is all human efforts to meet life's needs in the form of production, distribution, consumption, and trade activities in the form of goods and services following Allah's rules and laws contained in the Qur'an and Sunnah (Sutan, 2018).

Based on the definition above, it can be concluded that a Sharia business is a business based on halal and haram laws. Regarding the provisions of halal and haram in business, in fiqh qaidah, there is a formula "Al ashlu fi al asyya' al ibahah hatta yadulla ad dalilu ala at tahriimi" namely in terms of muamalah the law as long as something is permissible until there is an argument that makes it haram. For this reason, Muslims simply ask about what is prohibited. If there is no prohibition then it means it is permissible.

Several business principles in Islam must be implemented by business people, namely: not to use false and destructive methods, not to carry out business activities in the form of gambling or any similarities to gambling, not to oppress each other and harm each other, and not to cheat in business. measures, scales, or adulteration of quality, and not using usury or interest-based methods. (Yuniar et al., 2021).

It can be concluded that business is not merely an act in human relations but has a divine nature. There is an attitude of consent among stakeholders, and it is carried out with openness. If these characteristics and characteristics do not exist, then the business cannot be categorized as a Sharia business.

Risk Management

According to Vaughan in Pratiwi & Kurniawan (2018), defining risk into three definitions, namely: (1) risk is the chance of loss; (2) risk is the possibility of loss (risk is the possibility of loss); and (3) risk is uncertainty. Firmansyah (Musyafah, 2019) said that risk management is a process of anticipating risks so that losses do not occur to the organization. Bank Indonesia in Bank Indonesia Regulation Number 11/25/PBI/2009 concerning amendments to Bank Indonesia Regulation Number 5/8/PBI/2003 concerning the Implementation of Risk Management, risk is the potential for loss due to the occurrence of certain events and risk management is a series of methodology and procedures used to identify, measure, monitor and control risks arising from all bank business activities (Bank Indonesia, 2009).

Risk management is also defined as a rational attempt to reduce or avoid loss or injury (William, Smith, & Young in Musyafah, 2019). Meanwhile, the Institute of Risk Management defines risk management as a process in which an organization methodologically directs the risks of activities carried out to achieve sustainable profits in all of the organization's activity portfolio (Collier, Agyei, & Ampomah in Musyafah, 2019). Based on the definitions above, it can be concluded that Sharia risk management is a set of processes and methods that must be carried out in Sharia business activities.

RESEARCH METHODS

The approach used in the literature review study follows the guidelines set by the Center for Reviews and Dissemination (2009), but adjustments are made according to needs. The literature review procedure is carried out by determining the method to be used which includes decisions about study questions, certain criteria, search strategies, study selection, data extraction, quality assessment, and data synthesis. The exploration procedure started in 1993 and ended in 2020 in two stages: (a) documentation and selection of documents containing the defined search terms; and (b) carefully reading the sources cited in the articles to find key literature.

The research data source was obtained through the use of Publish or Perish with the New Scopus Search menu option. Chen & Xiao (2016) stated that there are three methods for identifying keywords in conducting bibliometric analysis. In this case, the author uses the second method, namely conducting document searches using the main keyword "Islamic risk management". Meanwhile, derivative keywords include "risk management AND Finance", "risk management AND Islamic bank", "risk management AND liquidity risk", "risk management AND Operational Risk", "risk management AND operational risk", "risk management AND credit risk".

The data that has been collected is analyzed using VOSviewer, Ms Excell, and OriginPro 2020. The following is the trend of research development during the period 1993 to 2020:

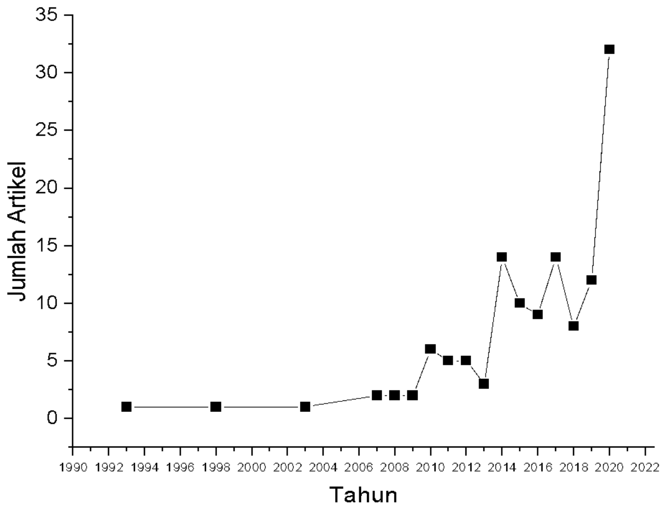

Figure 1 Trend in the development of research articles

Source: Scopus via Publish or Perish, 2022 (data processed)

The data that has been collected is then processed using VOSviewer. Based on the processing results, show that research related to risk management has been studied from various perspectives. The following are the results of the processing:

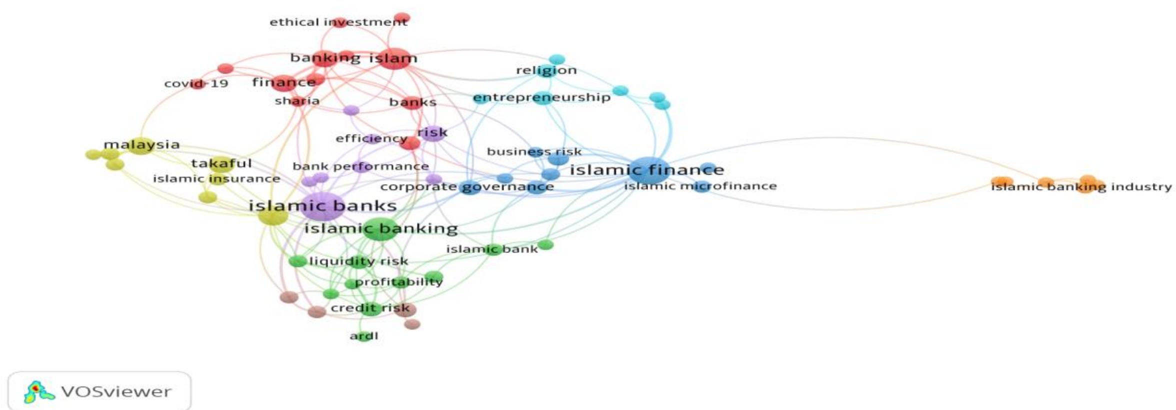

Figure 2 Co-Ouccurance Network Visualization Cluster Penelitian

Source: VOSviewer, 2022 (data processed)

Furthermore, the processing results show research trends during the 2014-2020 period. The picture shows the trend of research topics during this period, namely:

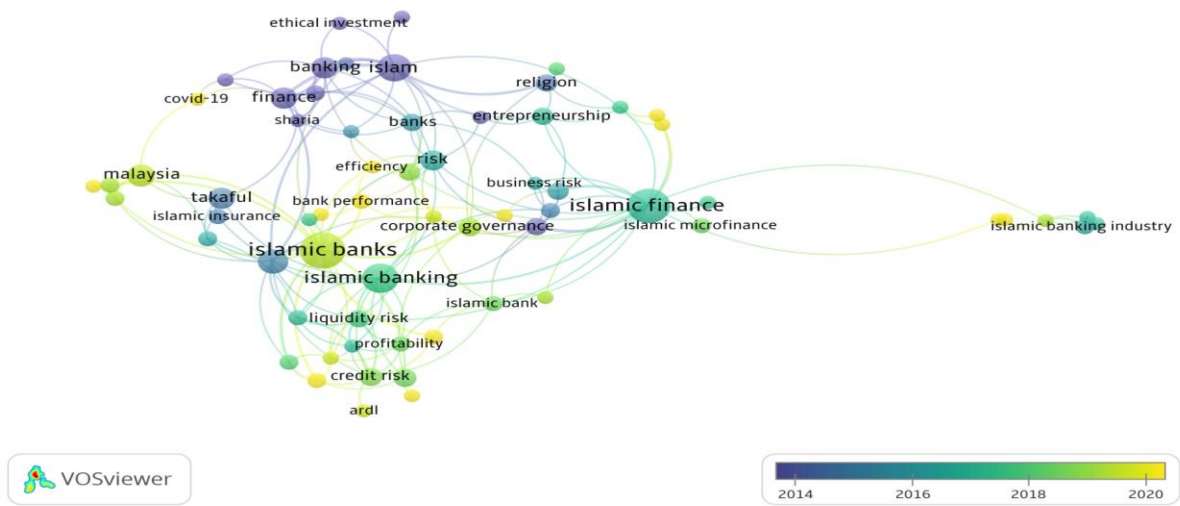

Figure 3 Co-Ouccurance Overlay Visualization Cluster Penelitian

Source: Scopus via Publish or Perish, 2022 (data processed)

VOSviewer also maps future research theme opportunities. In the image below there are several research colors. The darker the theme color, the greater the opportunity for a research theme in that field, namely:

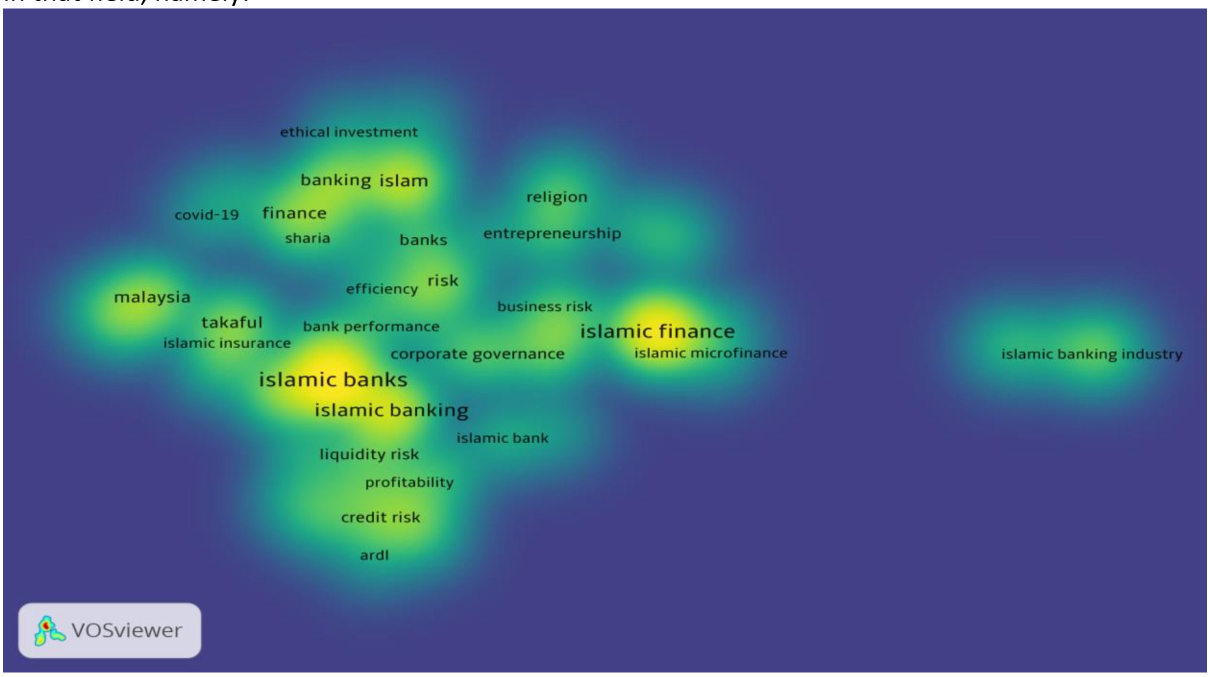

Figure 4 Co-Ouccurance Density Visualization Cluster Penelitian

Source: Scopus via Publish or Perish, 2022 (data processed)

After mapping research clusters as previously explained, several new themes were obtained that were interrelated. In this case, the author gets a new theme, namely "risk management". This theme was then connected to other related themes and an article search was carried out again based on the new theme. The search results can be seen in the following table:

Table 1 Article Findings Based on New Themes

Risk Management AND Finance (3 Papers)		
Writer	Title	Year
V. Srivastava	Project finance bank loans and PPP funding in India: A risk Management perspective	2017
Gündoğdu, Ahmet Şuayb	Risk management in Islamic trade finance	2016
Liu, Quanpu	Research on Risk Management of Big Data and Machine Learning Insurance Based on Internet Finance	2019
Risk Management AND Islamic Bank (9 Papers)		
S. Alhammadi	Risk Management and corporate governance failures in Islamic banks: a case study	2020
A.A. Rehman	A comparative study of Islamic and conventional banks' risk management practices: Empirical evidence from Pakistan	2018
S.A.A. Shah	Duration model for maturity gap risk management in Islamic banks	2020
A. Elgharbawy	Risk and risk management practices: A comparative study between Islamic and conventional banks in Qatar	2020
H. Akram	Credit risk management: A comparative study of Islamic banks and conventional banks in Pakistan	2018
M.Y.A. Basah	Risks in Islamic Banks: Challenges and Management	2018
S. Yustianita	The Influence of risk management and firm size towards the profitability of Islamic banks in Indonesia	2018
S.J. Mohammad	Assessment of liquidity risk management in Islamic and conventional banks - An empirical study	2020
O. Masood	Liquidity risk management implementation for selected Islamic banks in Pakistan	2017
	Risk Management AND Liquidity Risk (6 Papers)	
N.S. Abdel Megeid	Liquidity risk management: conventional versus Islamic banking system in Egypt	2017
T. Corbett	Buy-side liquidity risk management best practices	2018
E. Scannella	Theory and regulation of liquidity risk management in banking	2016
S.J. Mohammad	Assessment of liquidity risk management in Islamic and conventional banks - An empirical study	2020
M. Thaiyalnayaki	Exploring liquidity risk management in payment SYSTEM: In search of profitability	2017
O. Masood	Liquidity risk management implementation for selected Islamic banks in Pakistan	2017

Source:*Source: Scopus via Publish or Perish, 2022 (data processed)*

RESULT AND DISCUSSION

El Tiby & Grais (2015) explain that Islamic financing has its characteristics relating to the requirement that it comply with Sharia rules that promote contractual fairness and prevention of exploitation, sharing of risks and rewards, prohibition of interests, and real economic objectives. Islamic finance may not fund activities that are considered “haram” or sinful.

Gündoğdu (2016) states that each product group will require specific risk measures to be taken for the healthy management of the lending and borrowing process. Asset-based murabahah requires the simultaneous transfer of ownership from the supplier to the financier and from the financier to the loan recipient. Therefore, risk management practices will be similar to conventional loans. Asset-backed murabahah, on the other hand, requires ownership of the goods financed and poses certain risks to manage.

Srivastava (2017) explains that Public-Private Partnership (PPP) structures in India are unable to achieve the desired goals of optimal risk sharing and mitigation given the lack of appropriately priced instruments to mitigate political, regulatory, and legal risks.

Liu (Liu, 2019) states that insurance company risk management is a technical method for identifying, measuring, and controlling risk. The goal is to directly and effectively promote the realization of organizational goals.

Shah et al.(2020) stated that increasing Sharia compliance has a threefold impact. First, it will increase customer trust. Second, it will help increase profitability by reducing non-Shariah compliance penalties from regulators. Finally, it will increase market capitalization and stability of returns to investors due to an enhanced customer base, increased trust levels, and increased profitability.

Alhammadi et al (2020) illustrate how seemingly successful business models may fail due to inherent instability that can be identified through the application of careful risk analysis (including stress testing) in the choice and ongoing evaluation of business models, which are CG-strong and strategic. guidance needed. In particular, Arcapita's problems illustrate the dangers for Islamic financial institutions (IFIs) of business models that involve undue exposure to liquidity risks.

Rehman et al (2018) state the same thing that risks identification, risk assessment and analysis, credit risk analysis, and risk governance are the most efficient and influential variables in explaining Islamic bank risk management practices, while understanding risk management, credit risk analysis, and Risk governance is the most significant and contributing variable in conventional bank risk management practices. Differences are also observed between Islamic and conventional banks in liquidity risk analysis and risk governance.

Akram & Rahman (2018) explained that loan quality (LQ) has a positive and significant influence on CRM for both IB and LS. Asset quality (AQ), on the other hand, has a negative impact on CRM in the case of IB, but has a significant positive relationship with CRM in the case of LS. The impact of the 16 ratios measuring LQ and AQ has also been examined individually on CRM, using a regression model using a financial crisis dummy variable for a robust comparison between CB and IB. The model is proven to be significant, and the CRM performance of IB is observed to be better than that of CB. In addition, the average value of financial ratios used as a measuring tool for these variables indicates that the CRM performance of IBs operating in Pakistan is better than that of CBs during the study period. Practical implications: The research findings are expected to facilitate bankers, investors, academics, and policymakers to build a better understanding of CRM practices as adopted by CBs and IBs. These findings will be useful in formulating policy measures for the advancement of the banking industry in Pakistan.

Masood et al (2017) stated the influence of variables such as rational depositors and training on liquidity risk. The central bank provides Islamic banks with adequate rules and regulations, and the latter aims to control liquidity following these rules as well as depositor requirements. The results of this paper offer useful insights for Islamic banks around the world

Elgharbawy (2020) explains that Islamic banks face unique types and levels of risk that conventional banks do not encounter. In Islamic banks, risks such as operations and Sharia non-compliance are considered higher, while in conventional banks other risks such as credit and bankruptcy are higher; other risks, for example, liquidity risk, are faced by both. RMP is determined by understanding risk and risk management, risk identification, risk monitoring and control, and credit risk analysis, but not by risk assessment and analysis. However, the RMP of the two types of banks is not significantly different, except for credit risk analysis

The same thing was also explained by Basah et al (2018) that risks are significant and more complicated in Islamic banks compared to conventional banks, due to the unique features of contracts and the general legal environment. Contract complexity can increase the risk of Islamic banks. Various types of risks in Islamic banks have attracted more attention from regulators, practitioners, and academics over the last decade.

Mohammad et al (2020) stated that financial institution size, return on assets, return on equity, and capital adequacy ratio with liquidity risk measurements are positive and important in both Islamic and conventional banks.

Liquidity Risk Management

Scannella (2016) states that liquidity risk does not need to be covered by equity but by an adequate volume of liquid assets and highly liquid securities. Therefore, banking liquidity risk regulation is focused on financial constraints based on liquidity ratios. Corbett & Smodis (2018) state that a comprehensive and robust buy-side liquidity risk management framework must combine strong governance, real-time measurement, and monitoring processes, contingency planning, and product suitability reviews, supported by the best liquidity risk monitoring tools and systems in the market

Mohammad et al. (2020) stated that the relationship between financial institution size, return on assets, return on equity, and capital adequacy ratio with measuring liquidity risk is positive and important in both Islamic and conventional banks. Abdel Megeid (2017) states that in Egypt, CB has better performance in terms of liquidity risk management than IB. The significant differences in liquidity risk management between IBs and CBs can be attributed to the greater cash availability for CBs than for IBs, in addition, the Central Bank of Egypt's regulations on capital and liquidity requirements for IBs interfere with IB performance.

Masood et al (2017) show the influence of variables such as rational depositors and training on liquidity risk. The central bank provides Islamic banks with adequate rules and regulations, and the latter aims to control liquidity following these rules as well as depositor requirements. The results of this paper offer useful insights for Islamic banks around the world.

Based on the research results above, it can be explained that developments related to research themes have progressed from year to year. This indicates that there is concern from researchers and stakeholders to carry out in-depth research related to the theme of risk management. Even though a very large amount of research has been carried out, there are still gaps for future researchers to carry out further research to cover gaps that have not been carried out much research by researchers so far. This can be seen in figure 2, figure 3 and figure 4.

Regarding the research theme, Islamic economic experts specifically agree that risk management has an important role in financing in the Sharia financial, economic, and business sectors. Furthermore, it can be explained that Islamic banks must carry out steps and procedures related to risk management. This is done to avoid the risk of fraud in Islamic banking. Meanwhile, related to liquidity, the size of the financial institution, return on assets, return on equity, and capital adequacy ratio with liquidity risk measurements are positive. Thus, if there is an increase in the size of the institution, return on assets (ROA), return on equity (ROE), and capital adequacy ratio will have an impact on increasing bank liquidity, and vice versa.

CONCLUSION

Based on the processing of research metadata with VOSviewer software, it can be concluded that research related to the theme of risk management during the 1993-2020 period has experienced development every year. Mapping of research themes related to Islamic risk management can be seen in Figure 2, while trends in research themes can be seen in Figure 3 and research themes that are still rarely researched can be seen in Figure 3.

Based on the results of the analysis of several research articles, it can be concluded that there are two risks, namely financing risk and liquidity risk. In terms of Islamic banks' compliance with risk management, it will have an impact on customers' trust in them.

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