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Article

A Revisit of Managerial Finance Theories from an Islamic Finance Perspective

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ABSTRACT - Despite the need and expectation of a clear difference between Islamic and conventional managerial practices, much of the Islamic management practices still rely heavily and often blindly on assumptions borrowed from conventional theories. This review examines agency theory, asymmetric information theory, and pecking order theory by employing semi-systematic Protocol, Search, Appraisal, Synthesis, Analysis and Reporting Results (PSALSAR) methodology using thirty-five most relevant literatures benchmarked by Scopus Q1 and Q2 ratings. Findings indicate that Islam consider agency responsibility as "sacred", with agency conflicts viewed as violations of religious duty that are mitigated by Shariah supervisory oversight. Islamic faith strictly prohibits spreading and acting on rumours, emphasising the role of rigorous screening for reliability. While prioritising the use of internal funds based on pecking order theory, Islamic finance aligns closely with conventional finance. However, Islamic finance prioritises ethical liquidity over debt and interest-based funding sources. Transparency and accountability in Islamic finance are driven by socio-religious ethical codes as such profit and principles are not mutually exclusive. The study also highlights several theoretical overlaps as well as gaps between the two systems, offering deep insights into firm management, financing and governance.

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INTRODUCTION

The Islamic finance system emerged during the late 1960s as a viable alternative to the conventional interest-based financial system. The system underwent preliminary testing through the implementation of models that utilised profit-and-loss-sharing contracts to finance small businesses, while also collecting smaller deposits from Muslim savers. In the past five decades, Islamic finance has expanded its services to include technology-driven banking and financial products across more than forty nations. This has enabled Shariah-compliant companies to access investment and financing opportunities through equity and bond (*sukuk*) offerings. Islamic digital banks collaborate efficiently with fatwa-issuing institutions to ensure that their services align with Islamic values collectively (Hantoro et al., 2023). Additionally, Islamic social finance, which encompasses zakat, waqf, microfinance, and other similar initiatives, has experienced a remarkable growth (Saeed et al., 2023; Yaya et al., 2021).

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The impetus for this research is rooted in the constraints observed in the current body of Islamic finance literature. The field of research on Islamic finance and related subjects can be broadly categorised into three main domains: Islamic banking and finance; Islamic and halal marketing; and Islamic social finance, capital markets, FinTech, and other hybrid areas. These domains comprise a profit-and-loss-sharing system, a risk management mechanism integrated into the system, and an ethical framework (Yoon et al., 2021; Al Mamun et al., 2022).

The Islamic financial system is designed to prevent gambling, financial activities based on rumours, bribery, corruption, and excessive use of debt (Hassan et al., 2019a; 2019b; Rashid et al., 2020; Thabet & Hanefah, 2014). However, it is noteworthy that majority of research conducted on Islamic finance has adopted a "comparability" approach, aiming to coexist with conventional practices, rather than providing novel insights into authentic Islamic finance principles. Consequently, a higher proportion of the inquiries examined pre-existing traditional hypotheses.

Past researchers are driven by the observation that the field of Islamic finance has predominantly been influenced by supply-side factors. The scholarly literature has extensively examined the accessibility of Islamic financial services in various regions' banks and markets, as well as the expansion of these offerings in countries with Muslim minorities. Therefore, a comprehensive evaluation of the performance of products, institutions, and markets in the domain of Islamic finance encompasses a broad spectrum of scholarly research.

There exist two categories of studies on the demand side. A series of investigations into customers' perceptions of Islamic banks and financial institutions has identified a range of adapted models based on conventional bank selection criteria. The principal alteration pertains to the incorporation of "religion" or "Islamic principles and practices" as a determinant. Another factor pertaining to the demand side encompasses the desire for Islamic financing among enterprises that adhere to Shariah principles. The current study focuses on Islamic managerial finance, which has received limited attention in academic research, as noted by Hassan et al. (2019c).

This study aims to address the existing gap by providing a comprehensive explanation of Islamic managerial finance from a corporate finance perspective. The exclusion of most studies on Islamic financial institutions is conducted with careful consideration, unless they possess a high degree of relevance from a corporate finance standpoint.

A set of keywords was selected for querying the Scopus database, and the retrieved studies were screened using a threshold of Q2-ranked journals as the minimum. It should be noted that this study does not provide an exhaustive compilation of all Q2 and Q1 papers published. Upon conducting our final search, it was discovered that approximately sixty manuscripts were obtained pertaining to pertinent subject matter. However, only 35 of these manuscripts were found to be relevant to the field of "Islamic managerial finance," which deals with non-banking decisions.

The research utilised a semi-systematic methodology to conduct the review. In recent years, there has been a profusion of research endeavours utilising the bibliometric analysis to present a graphical representation of the scholarly citations of a particular journal and field of study. For example, Hassan et al., (2021) and Alshater et al., (2021) offer additional sources on analogous bibliometric analyses in the domains of Islamic finance and marketing. This study aims to provide a comprehensive review of the literature on Islamic managerial finance, with particular emphasis on the broader applications of pertinent theories. It also seeks to establish a foundation for further scholarly discussion on future directions.

In contrast to bibliometric analysis, a semi-systematic review does not offer an extensive account of bibliographies and citations patterns. Instead, it aims to achieve two primary objectives: to offer a comprehensive overview of the existing theories within a specific field and to evaluate these theories in relation to competing alternatives, as highlighted by Snyder (2019) and Tranfield et al. (2003). Several systematic and hybrid reviews have been conducted in relevant areas of Islamic finance (Hassan et al., 2019b), management, and healthcare (Tranfield et al., 2003), along with a notable semi-systematic review in the medical field (Wong et al., 2013).

The present investigation contributes to the discourse on three prevalent theories: agency theory, asymmetric information theory, and pecking order theory. This review examines these theories, followed by an elucidation of their implications for Islamic managerial finance. Agency theory is particularly influential in this context, as transactions in Islamic finance are frequently structured as contracts involving various agents, including bankers, contractors, manufacturers, suppliers, and other parties. The theory underscores the need for all stakeholders to uphold their ethical, spiritual, and economic responsibilities for a transaction to be deemed Shariah-compliant.

LITERATURE REVIEW

Islamic financial system

The Islamic financial system operates on a stakeholder-oriented framework. Insufficient attention to stakeholders' responsibilities, attributes, and levels of involvement have hindered the development of trust in the Islamic financial system, as highlighted by Sidani (2020), Hasan et al. (2019), and Rashid et al. (2013a). The presence of restricted data on contractual obligations and institutional performance results in a greater degree of asymmetric information within the domain of Islamic finance. The presence of inadequate market infrastructure, deficient governance, and impeded information flows caused by substandard reporting systems intensifies information asymmetry, as noted by Alia et al. (2022). The replication of conventional financial systems in Islamic financial products has been observed to mitigate asymmetricity, albeit potentially compromising fundamental Shariah principles, as noted by Ibrahim & Alam (2017), and Hassan et al. (2019b).

In the realm of Islamic finance, it is imperative for managers to build their decision-making framework on a commonly held value system that prioritises the creation of a sustainable environment, effective governance, and robust social development. Banna et al. (2021) proposed implementing strategies such as creating greater societal value, financing environmental solutions, and addressing financial inequality through digital inclusion in the context of Islamic finance. However, the practical application of these strategies remains limited.

According to Hassan et al. (2019a), there are limitations imposed on Islamic enterprises regarding their ability to secure financing through debt. It is recommended that these companies maintain a debt-to-asset ratio of no more than 33%. In the process of raising additional funds, Islamic enterprises adhere to a prescribed sequence that entails initially procuring funds from internal sources, followed by seeking external equity sources, and subsequently resorting to Shariah-compliant debt sources, such as *sukuk* and Shariah-compliant money market funds (Rashid et al., 2020).

This review presents four key messages derived from the analysis. Enhancement of the communication and reporting system is imperative in the Islamic financial system. The current deficient financial reporting system fails to facilitate effective decision-making by managers. It is recommended that Islamic enterprises enhance their social and ethical reporting protocols. Further research is warranted to highlight the significance of Islamic financing, the accessibility of Islamic money market funds, and the constraints of Islamic debt, including its maximum limit and tax disadvantages relative to conventional firms operating in the same industry. The pecking order theory could potentially provide a sound rationale for the hierarchy of capital funding. Nonetheless, it fails to comprehensively encapsulate the distinctive characteristics of Islamic enterprises.

The academic community has shown limited interest in managers' investment decisions at Islamic firms. The Islamic finance field has yet to develop a counterargument to the hypotheses of over- and under-investment, timing theory, and basic utility theory. Numerous studies have been conducted to develop a screening approach that has influenced the fundamental framework of the business model in Islamic managerial finance. The aim of a screening methodology was to facilitate the identification of investment opportunities for businesses that adhere to Shariah principles. The process of determining Shariah compliance for businesses involves the use of screening tools, categorised into qualitative and financial screens. The successful completion of both screening stages is necessary for businesses to be deemed Shariah-compliant, as noted by Hassan et al. (2019a), Rashid and Wei (2019), and Adedokun and Rashid (2019). However, there remains a dearth of substantial research on 'sustainable' financial models from an Islamic standpoint.

Furthermore, it is infrequent to encounter alternative perspectives rooted in Islamic principles in various domains of managerial finance. As noted by Anwer et al. (2019), the dividend policies of both Islamic and conventional firms follow similar principles, with dividend disbursements primarily influenced by the availability of funds. The determination of dividend payments in a dual-banking economy like Malaysia is influenced by both dividend-catering theory and investor sentiment, as noted by Rashid et al. (2013b). It is anticipated that forthcoming research will emphasise the development of novel theories pertaining to dividend policy, capital structure, cash reserves, short-term asset management, and other areas most relevant to Islamic managerial finance.

METHODOLOGY

A systematic literature review can be approached in at least two distinct ways, contingent on the nature of the research query, objective, and methodology employed in the literature search. In a comprehensive, systematic inquiry, the processes of research, analysis, and evaluation are predominantly quantitative. However, in the context of a semi-systematic literature review, these processes may be either qualitative or quantitative, as Snyder (2019) found. Semi-systematic reviews (SSR) are a valuable tool for achieving comprehensive objectives, such as providing an overview of a particular field of study and exploring theories and research agendas. A systematic literature review (SLR) is a valuable approach when it is impractical to examine all available research literature on a given topic, or when filters are applied for research purposes (Wong et al., 2013).

The study utilised a semi-systematic review approach, as outlined in Table 1. The present guidance notes have been formulated by drawing upon the recommendations put forth by Snyder (2019) and aligning them with the PSALSAR methodology outlined in Mengist et al. (2020).

Table 1: Semi-systematic review approach

Approach	General description	For this study
Purpose	Description and evolution of the research area.	1) Description of the most common theories used in Islamic managerial finance. 2) Comparison and synthesis based on similar theories in conventional finance.
Research question/ implications/ scope	Broad	The review has broad implications in several themes and areas, including investment, financing, payout policy, sustainability, and so on.
Content/ sample type	Research articles	1) Empirical and review research articles on conventional managerial finance for the last ten years. 2) Empirical and review research articles on Islamic managerial finance for ten years. 3) After filtering for keywords, areas, quality (Q1 and Q2), and discussion on a relevant theory, the study found thirty-five manuscripts for review on Islamic managerial finance. 4) Scopus was considered the search platform.

Content Search method	Semi-systematic	Matching the quality criteria (Scopus Q2) and qualitative judgement of the researchers (to match the study objective).
Analysis and evaluation	Qualitative	Thematic exploration of the topics and aligning them to theories.
Contribution	State of knowledge, Themes in literature, Historical overview, Research agenda, and Theoretical model	We explore theories of Islamic managerial finance relevant to the managerial decision-making of Islamic non-financial firms. The review of the theories will help in understanding the current state of the art and build an approach to Islamic managerial finance research.

Note: Modified based on Mengist et al. (2020).

Tables 2 and 3 provide a summary of the contributions. The theories, their applicability, and their economic possibilities are outlined in Table 2. The implications of the theories on Islamic finance are summarised in Table 3. Considering the dynamic nature and rapid growth of research in Islamic finance, these explanations are not all-inclusive. However, this study provides the fundamental insight and theoretical conclusions that will guide further research into Islamic managerial finance.

REVIEW OF THE SELECTED THEORIES IN FINANCE

Agency Theory

Agency theory is a cornerstone in modern business research that transcends management and impacts law, finance, economics, and marketing. The theory discusses the complex dynamics and delegation of responsibility between managers and owners (Jensen & Meckling, 1976; Dalmacio & Nossa, 2004; Payne & Petrenko, 2019). An agency relationship is held when managers act on behalf of and under the direction of the owners, often with limited information and resources (Charlene, 2016; Cuervo-Cazurra et.al, 2019). Agency theory has been refined by Jensen and Meckling (1976). A growing literature highlights the influence of agency theory on management, organisational leadership, and governance (Agustin et al., 2020).

A good agency relies on the capacity of both parties — skills, experience, and expertise — to add to the wealth of the owners (Gün, 2016). Unlike a sole proprietorship, where ownership and control are unified (Agarwal et al., 2014), an agency relationship can give rise to a conflict when the agents do not fulfil the objectives set by the principals (Massa et al., 2020). This failure is often attributed to skill shortages, monitoring capacity, information asymmetry, resource constraints, and incentives associated with relationship outcomes (Agarwal et al., 2014; Bauer et al., 2018).

The tendency to self-aggrandisement, which manifests as moral hazards and the misuse of resources by managers, is often a key finding in existing agency theory studies (Zogning, 2017; Panda & Leepsa, 2017). When these disparities of control and decisions are not minimised, the cost of governance increases and investors receive imperfect information, leading to abnormal performance (Payne & Petrenko, 2019). To minimise the negative impact of agency conflict, a collective effort was initiated around five decades ago, which is now known as corporate governance. The three most common attributes of this governance mechanism are transparency, accountability, and oversight by internal and external stakeholders (Aslam & Haron, 2020; Almutairi & Quttainah, 2017; Al-Nasser Mohammed & Muhammed, 2017; Zagorchev & Gao, 2015).

Institutionalising the governance mechanism results in lower agency cost and higher shareholder value (Agarwal et al., 2014; Toumeh et al., 2020). A sense of shared risk-taking, having internal auditors (Cai et al., 2015), and effective monitoring (Gün, 2016) play pivotal roles in fixing organisational strategic governance alignment.

Islamic perspective of agency theory

Agency theory in Islamic firms draws on the same principles as conventional firms, indicating a principal-agent relationship, but grounded in a *tawhidic* (monotheistic) epistemology (Hilmiyah et al., 2019). Responsibilities in an agency relationship are considered *amanah* (sacred trust) that are guided by ethical and moral guidelines beyond traditional contractual obligations (Agustin et al., 2020). Legally and Islamically non-permissible or *haram* activities are strictly prohibited in an agency relationship (Ramli & Ramli, 2016).

Table 2 critically explains an Islamic approach to agency theory. Table 3 presents a comparative perspective on the agency between conventional and Islamic management practices. These two tables clearly identify differences in agency characteristics, operational and control mechanisms, incentive structures, and the conflict-resolution process between Islamic and conventional management practices. There is a fair degree of tangibility in conventional agency relationships, whereas spiritual principles and incentives guide Islamic agency practices.

There are two key findings from these. *First*, the Islamic agency relationship is fundamentally different from the existing conventional principles. *Second*, a faith-based agency system is explicitly less costly but challenging to standardise. Hence, a harmonisation effort is needed to find common ground to ensure efficiency, accountability, and performance. Future studies may extend the connections between agency theory, stakeholder theory, and shared value theory, with implications for Islamic financial management practices.

Table 2: Islamic management approach to agency theory

Conceptual axis	Shariah perspective	Operationalisation	Literature support
Ontology	• *Tawhidic* approach • Agency as *Amanah* • Prohibition of *haram* activities	Religious responsibility over contractual obligation	Hilmiyah et al. (2019); Ramli & Ramli (2016); Agustin et al. (2020)
Instruments	• *Murabaha, salam, ijarah* • Equity-based PLS contracts	Equity over debt	Khan & Zahid (2019); Malik et al. (2019),
Conflict resolution	• Equality before God • *Thawab* (divine bounty from God as incentives) • '*Adl* in risk allocation • Shariah board oversight for risk management	Central monitoring by the Shariah board A sense of *taqwa* (fear of God) and priority of divine benefit over incentives.	Shamsuddin & Ismail. (2016); Ghafran & Yasmin (2019); Gün (2016).
Epistemic tensions	• Differences in *fiqh* interpretations • Limited Islamic commercial literacy • Lack of a bridge between conventional and Islamic business governance	Operationalisation of the Shariah governance framework matching the existing Islamic and conventional business practices	Anggraeni (2016); Farag et al. (2018); Ullah et al. (2018)

Teleological orientation	• Divine leadership (*khalifatic* stewardship) • Reaching the highest objectives (*maqasid al-Shariah)* • Going beyond *maslahah*.	Profit-sharing principles for the greater good to achieve a "cosmocentric" accountability.	Agustin et al. (2020); Zagorchev & Gao (2015)

Table 3: Agency theory in Islamic versus conventional management

Issues	Conventional	Islamic
Epistemological views	Rational, logical, and contextual changes in business and management	Holy books and social acceptance (*Quran*, *sunnah*, *ijma'*, *qiyas*)
Risk management	Debt-based risk-transfer models	Profit, loss, and risk sharing models
Conflict management	Audits, internal and external monitoring	Religious consciousness and monitoring by Shariah boards
Incentives	Economic tangible incentives	Faith-based incentives (spiritual bounty here and hereafter)

Asymmetric information theory (AIT)

Asymmetric information theory (AIT), often referred to as information asymmetry, posits that different parties in a transaction (and regarding any open phenomenon) hold diverse knowledge about the prospective impact of the information on the transaction or phenomenon (Jolly, 2017). The resulting imbalance is evident in the financial system, where agents (managers) may have better inside information about the company's prospects than shareholders, investors, or creditors, leading to abnormal value creation for groups with superior information (Gossner & Steiner, 2018).

AIT in financial markets manifests in two widely discussed phenomena: moral hazard and adverse selection. Information is key in making better returns from financial markets. Parties having access to unique information may have the capacity to manipulate financial market returns, earning them higher abnormal returns (Benamraoui & Alwardat, 2019). Other applications of information asymmetry include interest rate spread disparities, where low-risk entrepreneurs are at a disadvantage and may lose money (Ikeda, 2020), and entrepreneurs may shift funds to high-risk ventures due to the temporal duality of information asymmetry (Zafar & Siddiqui, 2019).

Information asymmetry is crucial for the stability of the financial sector. Access to low-cost, unequal information leads to an unstable market (Wang & Wang, 2017). Companies with limited access to funds are negatively affected by asymmetric information (Khan et al., 2017). Unequal information may also lead to adverse selection, negatively affecting consumer and investor trust (Jianheng et al, 2019). When compared to the availability of limited information, asymmetric information, which is an unequal distribution of information, impairs rational market assessment (Taylor et al., 2017).

Asymmetric information theory in Islamic financial management

Islamic management decision follows a theocentric approach while addressing the core problem of information asymmetry, uncertainty (*gharar*), gambling (*maysir*), and rumours using divine restrictions (Gheeraert, 2014), principles of *muamalat* (transactional jurisprudence), operational ethics, and social equity (Mulyana, 2017; Ibrahim & Alam, 2017). Despite religious prohibitions, epistemic disparities persist, distorting operational performance, investor trust, and access to liquidity (Zafar & Siddiqui, 2019; Benamraoui & Alwardat, 2019).

Table 4 compares the implications of asymmetric information in Islamic and conventional financial management practices. Conventional financial management practices rely on regulatory prudence, incentives, and monitoring to make information available and to prevent the misuse of private information. Global disclosure practices and mandatory Securities Exchange Commission (SEC) filings are often used as instruments to reduce the extent of information asymmetry. Islamic management practices do not rely solely on these traditional control functions but also incorporate religious and moral guidelines to prevent information leakage, ensure equal access to information, and prevent its misuse by different parties. Use of profit, loss, and risk-sharing instruments, pre-contract screening, and internal and external monitoring reduces the extent of information asymmetry. Given these paradoxes, Islamic management practices are subject to double scrutiny, which reduces information asymmetry in Islamic finance and markets.

Table 4: Information asymmetry: Islamic versus conventional practices

Issues of differences	Conventional practices	Islamic practices	Literature support
Conceptual foundation	• Efficiency and performance based on utility • Rational information is considered a competitive advantage • Fixed income, risk transfer instruments • Asymmetry is managed ex post; often not proactive	• Strict screening of Shariah permissibility • Principles of *muamalat* for transparency, social equity (‘*adl*), and eschatological accountability. • Loss-bearing (*daman*) and risk-minimising tendencies • Target to achieve *maqasid al-Shariah*	• Gheeraert (2014); • Mulyana (2017); Ibrahim and Alam (2017) • Benamraoui and Alwardat (2019); Zafar and Siddiqui (2019).

Instruments and market management	• Credit available via credit scoring and collateral • Capital instruments include securitisation and derivatives, mitigating asymmetry • Interest-based loans and venture capital for SMEs. • Risk-related regulatory oversight by banks and Basel; internal and external auditing.	• Credit markets are full of PLS contracts for equity, takaful for risk mitigation • Capital market instruments include *sukuk* and Islamic equities; screened thoroughly. • SME financing using *murabahah* and other credit guarantee programs • Strict risk disclosure to reduce post-crisis asymmetry	• Zafar and Siddiqui (2019); Bouslama and Lahrichi (2017) • Zafar and Siddiqui (2019) • Benamraoui and Alwardat (2019).
Theoretical dilemma	• Checking credit history to reduce adverse selection. • Performance-linked bonuses to control moral hazard. • Regulations to control insider trading to reduce informational arbitrage. • Mandatory SEC filings to reduce disclosure dilemmas.	• To reduce adverse selection, pre-contract screening and *khiya al-'ayb* (defection) clauses are available. • *Amanah* (trust) based covenants and loss-sharing principle by creditors can reduce the moral hazard problem. • *Hisbah* (market monitoring) and prohibition of fraudulent non-disclosure can reduce information arbitrage. • *Maslahah* or public welfare-based commercial activity can reduce the disclosure dilemma.	• Ibrahim and Alam (2017); Bouslama and Lahrichi (2017) • Mulyana (2017) • Gheeraert (2014)

Pecking order theory

Pecking order theory explains a specific sequencing of capital choices that prioritises internal reserves over external sources (Myers & Majluf, 1984). Companies relying on internal reserves, typically from past better financial performance, either do not want to rely too much on external resources or have limited flexibility with external debt and equity issuance (Kristiansen et al., 2018). As this may not be optimal for many firms, large, mid, and even small-cap firms still manually adjust their capital structure choices based on costs and access to funds (Gunarsih & Hartadi, 2017).

The extent of asymmetric information about the company significantly impacts its approach to raising funds. Pecking order theory is considered a corollary of information asymmetry, since internal funds are less costly than external debt and equity (Emami & Tehrani, 2016; Abdullazade, 2020). While the use of debt is generally considered intrusive due to restrictive covenants applied by the creditors, new equity issuance also signals overvaluation and lower investor confidence (Abbasi & Delghandi, 2016; Kristiansen et al., 2018). Hence, these signals, as credible inputs to market timing for new equity, violate the assumptions of the pecking order theory (Gunarsih & Hartadi, 2017).

Pecking order theory and Islamic financial management

Pecking-order theory across several dimensions closes the gap between conventional and Islamic firms. Like conventional firms, Islamic firms prefer internal funds over external funds. However, this can be an opening to a critical discourse on the availability of funds. Conventional firms prefer internal funds, despite having available external funds, indicating a strategic move. Islamic firms prefer internal funds as they have limited external funding choices. This forced choice by Islamic firms influences firms' growth and global competition. Table 5 compares the pecking order theory and practices in Islamic and conventional management.

Table 5: Pecking order theory: Islamic versus conventional management

Feature	Conventional	Islamic	Literature support
Foundation	Retained earnings, followed by debt and equity, are driven by an asymmetry of cost	Use of internal reserve (retained earnings) followed by Shariah-compliant external funds	Qoyum et al. (2019); Al-Balooshi (2020); Narration by *Tirmidhi*
Financing: debt and equity	Financing is interest-based; choices are primarily based on cost, flexibility, tax advantage, and no loss sharing	Prefers equity over debt, restriction on interest-based financing; promotes PLS-based instruments	Al-Balooshi et al. (2020); Qoyum et al. (2019); Narration by *Tirmidhi*
Alternative financing	Conventional bonds, leases, securitisation of receivables and inventories	*Sukuk*-like hybrid instrument	Al-Balooshi et al. (2020); Qoyum et al. (2019)
Risk allocation	Lenders bear minimal risk, principal, and interests are guaranteed.	Risk is shared; no guarantee of principal or return.	Al-Balooshi et al. (2020.

Governance and transparency	Covenants and collaterals are common, and regulatory compliance is through corporate governance.	Emphasis on ethical conduct, tangibility (asset-based); monitored by Shariah advisory board.	Al-Balooshi et al. (2020); Qoyum et al. (2019)
Ethical principles	Debt is a contractual obligation enforceable by law	Debt settlement is a religious responsibility	Narration by *Tirmidhi*

RESULT

How are Islamic management practices differ from those of conventional practice? This paper reviews selected studies to find meaningful differences between major theories applied in finance and financial management, considering the principles and practices of the two competing domains. The three broad theories reviewed are the agency theory, asymmetric information theory, and pecking order theory.

Review finds that Islam considers agency responsibility as sacred, which is benefited by spiritual outcome here and the hereafter. Conventional finance keeps it limited to a contractual obligation with tangible incentives attached to the successful fulfilment of the responsibility. Agency conflict in the Islamic system is proactively stopped, considering the conflict as an opposition to the religious responsibility, with monitoring by and guidance from the Shariah supervisory board. In conventional management, conflict resolution is achieved through changes in incentives (stick-and-carrot principles; stock options) and through monitoring by internal and external auditors.

Asymmetries in information quality, quantity, and distribution are taken extremely negatively in Islamic finance. It is completely prohibited not only to produce rumours or information without facts, but also to act on this information without checking its basis. Islamic financial practices apply several screening techniques to check the validity and reliability of the information. Conventional management practices broadly treat asymmetric information as an advantage to earn extra returns, and there is a tendency at some points to maximise the collection of unique and private information. However, in general, conventional finance also attempts to control the poor distribution of information that creates asymmetry by the requirements of quality disclosure and reporting of insider trading.

Pecking order theory offers a close match between Islamic and conventional management practices. To a certain extent, both Islamic and conventional firms prioritise internal reserves before debt and equity. However, the reason behind such a preference is different. Islamic firms use internal reserves because they have limited Shariah-compliant funds. Conventional firms use internal reserves to reduce unwanted complications from external creditors, such as banks or bondholders.

CONCLUSION

Theoretical implications

These review findings imply that there are three major principles behind Islamic financial practices that differentiate them from conventional finance. Islamic firms are affected by limited funds and restricted by interest-based conventional markets (Qoyum et al., 2019). Funds are managed based on a risk-sharing basis in Islamic firms, while the conventional firms follow an industry-based risk-transfer. Al-Balooshi et al. (2020) argue that Islamic firms follow a debt-free pecking order, whereas conventional firms follow a debt-based pecking order. Therefore, only a partial pecking order is possible in Islamic firms. Finally, there are several stages of monitoring by internal and external auditors, including the Shariah supervisory board and auditors. The Islamic transparency and accountability framework is ethics-driven, meaning that profitability and performance in the Islamic financial system must align with socio-religious accountability. Therefore, the role of an Islamic agency is to set guidelines to achieve performance through religious principles, which differs from that of conventional firms.

Practical implications

Following a standard agency structure. The way global Islamic firms operate tends to imitate existing conventional agency structures. There are two possible reasons behind this; first, it is cost-effective to follow an existing agency style, and second, the identity screening standard - to separate Islamic from conventional firms – does not include a clear standard on Islamic agency norms (Hassan et al., 2019b). Hence, policymakers need to establish a standard for Islamic agency norms that can be followed across industries.

Measuring and reducing asymmetric information. Even though in principle Islam does not consider asymmetry in information in decision-making, it is nonetheless challenging to measure the extent of asymmetry in a globalised setting. While rumours can affect stock prices and regular financial decisions, the standards for the tangibility of information should be clearly defined. Despite having some asymmetry with voluntary disclosure, there has been significant progress with the standards of information in the Islamic corporate universe (Abu Alia et al., 2022). Most Islamic firms are smaller than their conventional counterparts. They face difficulties in reporting price- and investor-sensitive information to the market. Regulators should invest in awareness and literacy campaigns to enhance the scope of small company financial reporting and auditing practices (Abu Alia et al., 2024).

Access to ethical liquidity. Pecking order theory states that firms reserve more cash and prioritise cash, followed by internal and external funds. There are two implications for Islamic firms. First, Islamic firms are not particularly profitable because they sacrifice profit-making to serve social causes. Hence, they reserve less cash than others. Second, the availability of external ethical liquidity that maintains the Shariah guidelines is extremely limited. Therefore, on the one hand, only a partial pecking-order theory applies to Islamic firms. On the other hand, the order of funds is cash, followed by equity-based internal and external funds. It is therefore an important responsibility as well as a challenge for the Islamic markets to supply ethical liquidity at a low cost to Islamic firms. Otherwise, these firms will lose their competitiveness against conventional firms, making Islamic entrepreneurship a no-go option for Muslims.

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