

EVALUATION OF *SHARĪ'AH* GOVERNANCE PRACTICES IN SAUDI ARABIAN BANKS

*ⁱ Mohamed Sharif Bashir and ⁱⁱ Abdo Aglan Babiker

ⁱ Applied College, Imam Mohammad Ibn Saud Islamic University (IMSIU), Riyadh 11432, Kingdom of Saudi Arabia

ⁱⁱ College of Business, Imam Mohammad Ibn Saud Islamic University (IMSIU), Riyadh 11432, Kingdom of Saudi Arabia

*(Corresponding author) e-mail: mbelsharif@imamu.edu.sa

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ABSTRACT

Islamic banking is witnessing a significant increase in worldwide demand for its products alongside the increased interest in *Sharī'ah* governance, which is an essential means of ensuring that the products and activities of Islamic banking institutions fully comply with *Sharī'ah* (Islamic law), meet customer needs, and increase their competitiveness in both local and international markets. The aim of this paper is to evaluate *Sharī'ah* governance practices in Saudi Arabian banks and also examine the level of adherence to *Sharī'ah* governance principles, institutional frameworks, regulatory standards, and procedures within Saudi banks. This paper employs a descriptive analysis approach, while the data were collected through a questionnaire survey from 95 members of *Sharī'ah* advisory boards, *Sharī'ah* groups, and *Sharī'ah* governance committees in 11 banks operating in Saudi Arabia. A regression analysis was performed to estimate relationships between the level of compliance and commitment to *Sharī'ah* governance in Saudi banks as a dependent variable, and the implementation of *Sharī'ah* governance, its dimensions, and the availability of implementing procedures of *Sharī'ah* governance as independent variables. The findings confirm the existence of variations between banks at the level of implementing *Sharī'ah* governance principles and standards. The dimensions of *Sharī'ah* governance received varying levels of attention in the banks, with organizational structure ranking first, followed by the dimensions of responsibility and disclosure, and finally, control, auditing, and accountability. The study reveals disparities in the implementation levels of *Sharī'ah* governance between banks with full-fledged *Sharī'ah* compliance and conventional banks that offer Islamic windows. Additionally, the study indicates differences in the adequacy of implementing procedures for *Sharī'ah* governance principles and standards in both types of Saudi banks, attributed to variations in bank size, product type, and organizational structure. The results of the regression analysis demonstrate that the implementation of *Sharī'ah* governance dimensions and the availability of implementing procedures have a statistically positive effect on the level of commitment to Islamic banking and *Sharī'ah* governance. The paper suggests a necessity for training personnel in Islamic banking, activating the role of *Sharī'ah* compliance units, and developing the *Sharī'ah* governance framework in Islamic banking operations in Saudi Arabia.

Keywords: *Sharī'ah* supervisory board, *Sharī'ah* governance framework, *Sharī'ah* compliance, Governance standards, Islamic banking

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Introduction

Researchers and practitioners have manifested increasing interest in Islamic finance in recent decades due to the high annual growth rates witnessed by financial and banking institutions compared to their conventional counterparts in several Islamic and non-Islamic countries. As one of the most developed sectors of Islamic finance, Islamic banking has gained significant prominence in national and international banking systems. Statistics indicate that Middle Eastern economies play a pivotal role in developing Islamic banking. In 2020, the total assets of Islamic banking in the Kingdom of Saudi Arabia (KSA) represented 19.5%, those in the United Arab Emirates (UAE) 14.1%, those in Kuwait 11.4%, and those in Qatar 11% of the global Islamic banking assets. Regarding banks, the top three banks globally are represented by Al-Rajhi Bank, with assets worth 124,970 million USD, followed by Dubai Islamic Bank with 78,834 million USD, and Kuwait Finance House with 70,687 million USD (Othman, 2022, p.7).

The present paper examines the commitment level to implementing *Sharī'ah* (Islamic law) governance principles and standards in Saudi banks. Governance, in its legal, administrative, and technical aspects, serves as a safe shield against financial crises and enhances the competitive capability of banks in both local and international financial markets. In this context, the Financial Sector Development Program in KSA, which is part of Vision 2030, emphasizes the development of a diverse, effective financial sector. The program includes an implementation plan for the Islamic finance strategy, which aims to enhance and develop the governance of the Islamic finance sector, reinforce the structure of *Sharī'ah* governance, and increase efficiency and transparency. To align with the aspirations of the *Sharī'ah* governance strategy, the *Sharī'ah* governance framework for banks and operating financial institutions was issued in February 2020. The framework sets commitments to be achieved by 2025, including increasing the ratio of *Sharī'ah* scholars in Islamic finance to approximately two per financial institution and committing to increasing the share of Islamic finance assets globally to 22.5% by 2025 (Financial Sector Development Program, 2021, pp.74-76).

According to the 2019 statistics, global Islamic finance assets increased annually by 14%, equivalent to 2.88 trillion USD. In the Gulf Cooperation Council (GCC) countries, Islamic finance assets reached 1.2 trillion USD, followed by the Middle East (excluding the GCC) with assets totaling 755 billion USD and Southeast Asia with 685 billion USD. Islamic banking contributes to the majority of global Islamic finance assets, which are projected to reach approximately 3.69 trillion USD by 2024 (ICD-Refinitiv, 2020, p. 15).

KSA has achieved a prominent position in the Islamic finance industry within the framework of the Financial Sector Development Program and the implementation plan of the Islamic finance strategy. The strategic commitments include increasing Islamic finance assets in Saudi's total Islamic finance sector assets globally to 22.5% by 2025, compared with 21% in 2018 (Financial Sector Development Program, 2021, pp. 74-75).

However, despite the rapid local and global growth of Islamic banking, there are challenges related to the negative impacts of global financial crises on the Islamic finance and banking sector. These challenges necessitate the development of appropriate plans and policies to mitigate their repercussions and learn from the experiences that led decision-makers in financial institutions to focus on governance, increase monitoring mechanisms, and enhance control over companies, banks, and capital markets. These experiences followed consecutive financial crises such as the Asian financial crisis in 1997, the Enron Corporation bankruptcy in 2002, and the United States financial crisis in 2008 (Al-Noubani & Sadiqi, 2016, p. 3). Therefore, applying *Sharī'ah* governance in Saudi banks represents an effective response to these challenges at the local level and the potential risks they may face. Thus, the problem statement of this paper can be formulated in the following research question: What is the level of commitment to implementing *Sharī'ah* governance principles and standards in Saudi banks, including both types of banks namely full-fledged Islamic banks and conventional banks with Islamic windows?

This main question leads to the following specific questions:

- 1) What are the important features, applications, and practices of *Sharī'ah* governance in Saudi banks?
- 2) Are there sufficient implementing procedures for *Sharī'ah* governance applications in Saudi banks?
- 3) What is the level of commitment to the *Sharī'ah* governance framework in Saudi banks?
- 4) Are there differences in the levels of *Sharī'ah* governance commitment between banks, based on the level of their implementing *Sharī'ah* governance, the organizational structure, and the accountability or availability of executive procedures for *Sharī'ah* governance?
- 5) What effect does the implementation of *Sharī'ah* governance dimensions and the availability of implementing procedures have on the level of compliance with and commitment to *Sharī'ah* governance in Saudi banks?

Significance of the Study

The present study holds importance in its focus on the applications and practices of *Sharī'ah* governance in Saudi banks. From a scholarly perspective, this study enriches the literature on *Sharī'ah* governance and explores new applications and practices of *Sharī'ah* governance in banks. From a practical perspective, this study can assist policy-makers and decision-makers in regulatory bodies in monitoring the progress of implementing the *Sharī'ah* governance framework in Saudi banks. It provides insights into the level of implementation of the regulatory framework for *Sharī'ah* governance and analyzes the level of commitment to implementing the principles, standards, and dimensions of *Sharī'ah* governance in Saudi banks. Furthermore, the study can help in formulating appropriate policy implications and procedures to enhance the *Sharī'ah* governance framework in the banking system; additionally, it could empower the leadership of Islamic banking in Saudi banks to direct their efforts toward effectively and optimally implementing the *Sharī'ah* governance framework.

Research Objectives

The objectives of this paper can be stated as follows:

1. To evaluate the level of compliance with and commitment to implementing *Sharī'ah* governance principles and dimensions in Saudi banks practicing Islamic banking in full-fledged and Islamic-window forms.
2. To identify the key features of implementation and practice of *Sharī'ah* governance in Saudi banks.
3. To determine the availability of implementing procedures for *Sharī'ah* governance principles and dimensions in Saudi banks.
4. To measure the effect of implementing *Sharī'ah* governance dimensions and the availability of executive procedures on the level of compliance and commitment to *Sharī'ah* governance in Saudi banks.
5. To offer some policy implications to support and enhance the implementation of the *Sharī'ah* governance framework in Saudi banks.

Theoretical Framework and Considerations

The concept of institutional governance emerged several years ago due to the modern requirements imposed by the manifestations of globalization. Interest in this concept increased following successive financial crises at the international level, which compelled decision-makers in financial institutions to attend to governance to achieve financial stability and adopt important measures regarding the implementation of governance principles to avoid the impacts of financial crises.

Governance has acquired a prominent position in banks and financial institutions due to the importance of the financial services they provide, the magnitude of the risks and challenges they face, and the need to protect the interests of customers, shareholders, and all parties involved with these institutions. Governance plays a crucial role in mitigating these risks and maximizing the market value of financial institutions, ensuring their sustainability, growth, and continuity.

Islamic financial institutions are unique financial entities that operate by the principles of Islamic law to cater to customers seeking Islamic banking services. To provide best practices, Islamic financial institutions adhere to *Shari'ah* governance based on a set of principles and guidelines. However, the uniqueness of these financial institutions presents challenges in implementing governance principles (Yousfi & Azaizia, 2018, p. 188).

Concept of Governance in Financial Institutions

The concept of governance in financial institutions is defined as a set of rules, procedures, systems (administrative, legal, accounting, financial, and economic), and instructions guiding the behavior of the institution and governing the relationship among all parties involved in a manner fostering interaction between these parties. It aims to improve performance, ensure ethical behavior, and mitigate improper practices (Yousfi & Azaizia, 2018, p. 191).

The Organization for Economic Cooperation and Development (OECD) defines governance as “the system by which companies are directed and controlled, describing the distribution of rights and responsibilities among different stakeholders in the company” (OECD, 2015, p. 5). Thus, governance includes the necessary rules and procedures for deciding regarding company affairs. It also encompasses the goals, strategies, and monitoring foundations required to achieve and evaluate performance.

The Importance of Governance in the Banking Sector

The importance of governance in the banking sector stems from the crucial roles it plays as a system that integrates its roles in developing the state's economy. Governance holds particular significance in banks compared to other financial institutions for the following reasons (Al-Wabel, 2015: 8):

1. The role of banks as financial intermediaries in the national economy.
2. Central bank supervision and regulation of the application of institutional governance in banks.
3. Maintenance of the trust of stakeholders in banking institutions.
4. The need to protect depositors' funds due to the high sensitivity arising from potential difficulties from ineffective corporate governance.
5. Poor governance practices in banks leading to a loss of confidence in their ability to manage assets and liabilities properly, making them vulnerable to banking risks.

The concept of governance in the banking sector reflects the extent of monitoring of banking performance by the board of directors and the executive management, and the protection of the rights of shareholders and depositors and their relationships with relevant parties. However, this monitoring occurs within a regulatory framework and under specific supervisory bodies, in accordance with prevailing laws and regulations, to protect the interests of all the parties involved (Al-Baltaji, 2007; Mizushima, 2014).

***Shari'ah* Governance**

Concept of Shari'ah Governance

Shari'ah governance is associated with corporate governance in Islamic financial institutions. One model involves having both an external and an internal *Shari'ah* supervisory board (SSB). In Guiding Principle No. 10 on the *Shari'ah* Governance for Institutions Offering Islamic Financial Services, issued in December 2009, the Islamic Financial Services Board (IFSB) defined *Shari'ah* governance for Islamic financial institutions as “the system through which Islamic financial services institutions ensure that there is independent and effective supervision of the *Shari'ah* compliance” (IFSB, 2023, p. 81).

The Principles of Sharī'ah Governance

Prominent organizations such as the IFSB and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have developed the principles of *Sharī'ah* governance. The IFSB has adopted governance principles from the OECD and the Basel Committee document on “Enhancing Corporate Governance in Banking Organizations” (Mizushima, 2014). Additionally, the AAOIFI has issued seven standards related to *Sharī'ah* governance in Islamic financial institutions as part of its guidance on *Sharī'ah* controls for Islamic financial institutions (AAOIFI, 2018b).

Based on the *Sharī'ah* control standards issued by the AAOIFI, five fundamental principles of *Sharī'ah* governance have been identified (AAOIFI, 2018a):

1. **General Framework of *Sharī'ah* Governance:** This principle aims to ensure the existence of an effective *Sharī'ah* governance framework within the institution. The institution should adopt and implement a *Sharī'ah* governance structure that aligns with its size, complexity, and nature of operations. It should establish a comprehensive policy framework that defines the roles and strategic functions of the board of directors, committees, executive management, SSB, and internal and external auditors while adhering to *Sharī'ah* principles and provisions.
2. **Competence:** This principle aims to ensure the availability of reasonable expertise and skills within the SSB and the *Sharī'ah* department of the bank. It requires members to possess academic qualifications, practical experience, and a good reputation. Continuous development of their capabilities and professional performance is essential.
3. **Independence:** Independence refers to providing the SSB at the bank with the freedom to issue *fatwas* (Islamic legal opinions) and rulings in accordance with the conditions of *ifta'* (issuing *fatwas*) without any influence on its members. This move enhances the trust of stakeholders and ensures the legal soundness of transactions.
4. **Confidentiality:** Confidentiality entails maintaining the confidentiality of information obtained by the *Sharī'ah* department of the bank, which is not accessible to the public and cannot be disclosed. Members of the *Sharī'ah* department must ensure the confidentiality of the information obtained by the institution.
5. **Consistency:** Consistency signifies the harmony among members of the SSB in presenting opinions and *fatwas* to the institution, as well as striving for consensus in *Sharī'ah* decisions. This principle contributes to enhancing their credibility and ensuring their integrity.

The Framework of Sharī'ah Governance in Saudi Banks

The Saudi Central Bank (SAMA), formerly known as the Saudi Arabian Monetary Authority, has issued several key principles for *Sharī'ah* governance in banks operating in KSA in the form of guiding instructions to assist banks in enhancing the overall governance framework (SAMA, 2014; 2021). SAMA also issued regulatory guidelines for *Sharī'ah* governance in February 2020, under the title “*Sharī'ah* Governance Framework for Local Saudi Banks Operating in the Kingdom” (SAMA, 2020). This framework represents the minimum supervisory and regulatory requirements set by the Central Bank, regarding *Sharī'ah* governance practices in banks operating in KSA.

The framework of *Sharī'ah* governance in Saudi banks operating in KSA aims to enhance the environment of compliance with *Sharī'ah* principles and regulations among Islamic banking practitioners in KSA. The framework includes defining the roles and responsibilities of the board of directors, executive management, the *Sharī'ah* committee, and internal control management and also encompasses various other aspects related to the compliance of banks practicing Islamic banking. This requires supervisory and executive bodies in these banks to know *Sharī'ah*, financial matters, and relevant regulations regarding *Sharī'ah* governance and its applications in line with developments in Islamic finance (Salama, 2020, p. 559).

The main requirements of *Sharī'ah* governance in Saudi banks operating in KSA are manifested in the need to establish a framework for *Sharī'ah* governance in banks practicing Islamic banking, as stated in the second section of the framework. The third section focuses on the responsibilities of the board of

directors and executive management. The board oversees and is responsible for adopting the framework and ensuring its alignment with the operations of the banks. Meanwhile, the executive management identifies and refers *Sharī'ah* matters to the *Sharī'ah* committee and oversees the implementation of its decisions. The fourth section pertains to appointing and forming the *Sharī'ah* committee and emphasizing the qualifications and attributes of its members and the mechanism of its meetings, in addition to outlining its *Sharī'ah* responsibilities and tasks. The committee is responsible for its *Sharī'ah* decisions, as stated in the fifth section. The sixth section highlights the importance of the independence of the *Sharī'ah* committee in performing its duties, emphasizing the need for members to maintain confidentiality, adhere to ethical and professional standards, and ensure the quality of *Sharī'ah* decisions. The seventh section covers the internal *Sharī'ah* control, which includes managing compliance with regular assessment of the performance of the bank, managing noncompliance risks, and auditing *Sharī'ah* independently to ensure the effectiveness and safety of the internal control system. The eighth section addresses the operations of Islamic windows, ensuring the existence of adequate regulatory systems and tools to properly distinguish assets and funding sources in accordance with *Sharī'ah* principles. Finally, the ninth section discusses practical measures for developing *Sharī'ah*-compliant banking products (Salama, 2020, pp. 559-560).

Sharī'ah Governance in the Gulf Cooperation Council Countries

This is a comparative analysis of *Sharī'ah* governance practices in Islamic financial institutions in GCC countries. The comparison is based on three dimensions: legislation and regulatory frameworks for *Sharī'ah* governance, executive procedures and mechanisms for implementing *Sharī'ah* governance, and general requirements for *Sharī'ah* supervisory bodies. *Sharī'ah* governance is practiced in GCC countries through binding instructions issued by their central banks. The details are as follows:

United Arab Emirates

a) Legislation and Regulatory Framework for Sharī'ah Governance

The Central Bank of the UAE issued the *Sharī'ah* governance standard for Islamic financial institutions under Federal Decree-Law No. 14 of 2018, concerning the Central Bank and the regulation of financial establishments and activities. The standard aims to establish minimum requirements for financial institutions to ensure compliance with *Sharī'ah* in all their objectives, activities, operations, and work agreements (Masraf Alemarat AlArabiyyah Almutthidah Almarkaziyy, 2020).

b) Organizational Structure of Sharī'ah Governance

The UAE government established the Higher *Sharī'ah* Authority for Financial and Banking Activities within the Central Bank in September 2016. Its responsibilities include issuing standards and overseeing Islamic financial institutions to ensure their compliance with the principles and provisions of Islamic law. The authority also provides opinions on *Sharī'ah* matters. The organizational structure of *Sharī'ah* governance in Islamic financial institutions consists of the following: internal *Sharī'ah* control department, internal *Sharī'ah* audit department, the appointment of specialized external *Sharī'ah* auditors, and specialized committees reporting to the board of directors (e.g., Risk committee and *Sharī'ah* audit committee) within the financial institution.

c) Executive Procedures and Mechanisms for Implementing Sharī'ah Governance

The *Sharī'ah* Governance Standard should be implemented through a set of regulations and procedures outlining the structure, roles, responsibilities, and accountability. It clarifies the scope and tasks of different functions, lines of reporting and communication between different functions, and mechanisms for promoting a culture of *Sharī'ah* compliance within the institution, in addition to the tasks of specialized committees under the board of directors.

d) General Requirements for Sharī'ah Supervisory Bodies

The Central Bank of the UAE appoints the Members of the Higher *Sharī'ah* Authority, based on professional, legal, and *Sharī'ah* qualifications. Within the Islamic financial institution, members of the internal *Sharī'ah* supervisory committee are appointed, based on the nomination of the board of

directors, according to criteria of eligibility, competence, and expertise, especially in the field of Islamic financial transactions.

State of Kuwait

a) Legislative and Regulatory Framework for *Sharī'ah* Governance

Sharī'ah governance in Islamic banks and investment companies in Kuwait began in 1994 when the Central Bank issued a circular recognizing the appointment of *Sharī'ah* boards and *Sharī'ah* auditors in those financial institutions. In 2003, the Central Bank of Kuwait issued instructions regarding the rules, conditions, and responsibilities of the SSB in Islamic banks, leading to the establishment of *Sharī'ah* departments encompassing *Sharī'ah* auditing, research, and training (Bnk alkwytmrky, 2003). In 2016, the Central Bank of Kuwait issued instructions on *Sharī'ah* governance in Islamic banks in Kuwait, highlighting the compliance requirements of *Sharī'ah* governance effective from January 1, 2020 (Bnk alkwytmrky, 2016).

b) Organizational Structure and General Requirements for *Sharī'ah* Supervisory Bodies

Accredited external *Sharī'ah* audit firms were established in Kuwait, and Islamic banks were mandated to contract with them. Moreover, the Central Bank of Kuwait required the establishment of an internal *Sharī'ah* audit department, reporting to the SSB and the *Sharī'ah* audit committee of the bank. The general assembly appoints the members of the SSB, based on the recommendation of the board of directors, with a maximum of three members. An individual cannot serve as a member of the board and be part of the board of directors or executive management of the bank. Additionally, a member cannot participate in more than three other financial institutions. *Sharī'ah* auditors also need to be appointed. The SSB must hold a minimum of four annual meetings with the bank.

c) Implementation Procedures and Mechanisms of *Sharī'ah* Governance

The Central Bank of Kuwait issued instructions regarding the rules, conditions, and responsibilities of the SSB in Islamic banks operating in Kuwait. The tasks of the board include issuing fatwas (Islamic legal opinions) and overseeing contracts. Instructions were also issued regarding appointing *Sharī'ah* auditors to act as a link between the bank and the SSB on *Sharī'ah*-related matters. External audit firms are required to submit their reports to the General Assembly of the bank and provide a copy to its SSB.

Kingdom of Bahrain

a) Legislative and regulatory framework for *Sharī'ah* governance

The *Sharī'ah* Advisory Board was established in the Central Bank of Bahrain in 2007, consisting of five members, including a chairman, vice-chairman, and three other members with a minimum of seven years of experience. The membership term of the *Sharī'ah* Advisory Board is three years and is renewable.

b) Organizational Structure and General Requirements for *Sharī'ah* Governance

Establishing a *Sharī'ah* supervisory body in each Islamic financial institution is mandatory, along with an internal *Sharī'ah* audit unit responsible for *Sharī'ah* auditing. The board of directors of the institution appoints the members of the *Sharī'ah* supervisory body, subject to the approval of the Central Bank of Bahrain. However, there are no regulations regarding the qualifications of SSB members or restrictions on their membership in multiple financial institutions.

c) Implementation Procedures and Mechanisms of *Sharī'ah* Governance

Islamic financial institutions operating in the Kingdom of Bahrain need to comply with the standards set by the AAOIFI for *Sharī'ah* governance. The internal audit unit, which performs *Sharī'ah* auditing, must conduct an internal *Sharī'ah* review (Central Bank of Bahrain, 2022).

Sultanate of Oman

a) Legislative and Regulatory Framework for *Sharī'ah* Governance

The regulatory legislation for the Islamic finance sector in the Sultanate of Oman was issued in 2012, establishing the higher SSB by the decision of the board of governors of the Central Bank of Oman.

b) Organizational structure and general requirements for *Sharī'ah* governance

The higher *Sharī'ah* supervisory board in the Central Bank of Oman consists of five members, three of whom specialize in *Sharī'ah* and banking, with a minimum of ten years of experience in the field of Islamic transactions. The remaining are experts in economics and law. The membership term is four years and is renewable.

c) Implementation Procedures and Mechanisms of *Sharī'ah* Governance

Islamic financial institutions operating in the Sultanate of Oman are required to adhere to the AAOIFI standards and the guidelines set by the Central Bank of Oman. The bank adopts the AAOIFI standards and mandates that all Islamic financial institutions comply with the relevant *Sharī'ah* governance requirements (Central Bank of Oman, 2012).

State of Qatar

a) Legislative and Regulatory Framework for *Sharī'ah* Governance

Islamic financial institutions in Qatar are required to adopt the AAOIFI standards and the standards of the Economic and Development Organization for *Sharī'ah* governance, as per the instructions of the SSB of the Central Bank of Qatar. The highest *Sharī'ah* authority in Qatar is the Higher *Sharī'ah* Advisory Committee of the Ministry of *Awqaf*, which serves as the highest *Sharī'ah* arbitration authority in jurisprudential disputes among members of the SSB.

b) Organizational Structure and General Requirements for *Sharī'ah* Governance

The board of directors of the Islamic financial institution appoints the members of the SSB, subject to the approval of the general assembly. The SSB should have a minimum of three members specializing in *Sharī'ah* studies.

c) Implementation Procedures and Mechanisms of *Sharī'ah* governance

The Islamic financial institutions in Qatar are required to adopt the AAOIFI standards, ensuring compliance with *Sharī'ah* governance requirements (Qatar Central Bank, 2011).

Kingdom of Saudi Arabia

a) Legislative and Regulatory Framework for *Sharī'ah* Governance

SAMA issued guidance on *Sharī'ah* governance in February 2020, titled “*Sharī'ah* Governance Framework for Local Saudi Banks Operating in the Kingdom of Saudi Arabia.” The framework focuses on the functions and key elements that ensure the effective implementation of *Sharī'ah* governance (SAMA, 2020).

b) Organizational Structure and General Requirements for *Sharī'ah* Governance

The *Sharī'ah* committee is formed within the bank, and the board of directors appoints its members, subject to the approval of SAMA. The committee consists of a minimum of three to five members, depending on the size and nature of the activities of the bank. The committee members must possess professional, practical, and *Sharī'ah* and financial expertise.

c) Implementation Procedures and Mechanisms of *Sharī'ah* Governance in KSA

Implementing *Sharī'ah* governance in banks operating in KSA involves several aspects. The responsibilities of the board of directors are defined, including the adoption of the *Sharī'ah* governance framework for the bank and the supervision of its effective implementation. The responsibilities of the

executive management are specified, along with providing a corrective plan for *Sharī'ah* noncompliant transactions. Internal *Sharī'ah* control is ensured through compliance conditions and internal *Sharī'ah* auditing. The risk management of noncompliance with *Sharī'ah* provisions is also addressed. The *Sharī'ah* governance framework should include policies and necessary procedures to fulfill its requirements, the effectiveness of the board of directors and executive management in performing their tasks and responsibilities, the independence of the *Sharī'ah* committee, and the effectiveness of *Sharī'ah* control mechanisms. Having control measures in place is important to ensure the alignment of the objectives and activities of the bank with *Sharī'ah* provisions and to ensure transparency in evaluating the compliance of the banks with *Sharī'ah* provisions (SAMA, 2020; Hassan, Sohail, & Munshi, 2022).

Sharī'ah Governance Practices at the Central Bank Level in Selected Islamic Countries

This section briefly overviews the *Sharī'ah* governance practices in financial institutions in a sample of countries, namely, Malaysia, Sudan, Pakistan, and Indonesia. It is based on the adoption by their central banks of an established *Sharī'ah* governance role, known as the hybrid model. This model ensures the compliance of Islamic financial and banking institutions with *Sharī'ah* principles (Bashir & Khalid, 2011; Hamza, 2013). The paragraph also includes Table 1, highlighting the three main aspects related to the regulatory framework of *Sharī'ah* bodies and their functioning. It reveals the areas of agreement and divergence in the practices of these countries, based on *Sharī'ah* governance regulations; the mechanisms for appointing members of *Sharī'ah* bodies and their specializations; and the requirements of *Sharī'ah* supervision, including *Sharī'ah* auditing, risk management, review, and research (Hosen, Falah, & Lathifah, 2019; Elamer, Ntim, & Abdou, 2020; Meutia & Adam, 2021).

Table 1: Comparison Among Countries Adopting the Hybrid Model

Item	Country			
	Malaysia	Sudan	Pakistan	Indonesia
Central legislation for <i>Sharī'ah</i> governance	✓	✓	✓	✓
Central <i>Sharī'ah</i> authority	✓	✓	✓	✓
<i>Sharī'ah</i> authority for each bank	✓	✓	✓	✓
Mandatory application of governance standards	✓	✓	✓	✓
Mandatory internal <i>Sharī'ah</i> audit	✓	✓	✓	×
Mandatory external <i>Sharī'ah</i> audit	✓	✓	✓	×
<i>Sharī'ah</i> review	✓	✓	✓	×
<i>Sharī'ah</i> risk management	✓	✓	×	×
<i>Sharī'ah</i> research management	✓	✓	×	×
Requirement of <i>Sharī'ah</i> and financial expertise for membership in the <i>Sharī'ah</i> authority	✓	✓	✓	✓
Membership diversity in banks and financial institutions	×	✓	✓	✓

Source: Compiled by the authors from official central banks' websites: Central Bank of Sudan, Bank Sentral Republik Indonesia and Bank Negara Malaysia (2012, 2019), State Bank of Pakistan (2015; 2017).

Literature Review

Previous studies addressed three issues concerning the role of *Sharī'ah* governance and the impact of its dimensions on Islamic bank performance, in which *Sharī'ah* governance is seen as one of the requirements for improving Islamic bank performance, whether in terms of profits and returns or satisfying customers' needs and boosting competitive market capabilities. Based on an analysis of the previous studies, the following three concerns are explained:

The Effect of SSB Characteristics on Bank Performance

The characteristics of the SSB have occupied the attention of research in terms of their impact on the performance of Islamic banks. Bashir (2023) examined the impact of SSB characteristics on the financial performance of four fully Islamic Saudi banks during the period 2013–2022. He revealed that

the independence and expertise of SSB significantly influenced the performance of Islamic banks, while its size had minimal impact. Similarly, Safiullah (2023) discussed the impact of higher education qualifications of SSB members on financing liquidity in 63 Islamic banks from 10 countries during the period 2005–2018. He confirmed that higher educational qualifications of SSB members enhance financing liquidity in Islamic banks. These results indicated that the SSB commitment to governance standards affects financing liquidity positively and significantly in small and emerging Islamic banks and countries with *Sharī'ah* regulatory authority at the national level. In their study on 180 Islamic banks from 56 countries during the period 2010–2019, Haddad and Souissi (2022) found that SSB size and the number of meetings positively influence the financial performance of Islamic banks. Hence, SSB quality facilitates good financial performance of Islamic banks. Islam, Bhuiyan, Kassim, and Rusli (2021) also investigated the effects of SSB characteristics on the risk level of 14 Islamic financial institutions in Bangladesh. They revealed that the expertise of *Sharī'ah* scholars had a positive and statistically significant impact on risk reduction in Islamic financial institutions in Bangladesh. Badshah, Abdullah, Hashmi, and Shah (2021) analyzed the impact of corporate governance practices and the SSB on the financial performance of 20 Islamic banks in Arab and non-Arab countries from 2012 to 2018. These results demonstrated that the SSB and the *Sharī'ah* audit committee positively contribute to the asset performance and profitability of Islamic banks while negatively affecting stock performance.

On the basis of the risk control perspective, Mukhibad and Setiawan (2022) investigated the impact of SSB characteristics on risk control in 14 Islamic commercial banks in Indonesia. They revealed that experience and educational background in finance and Islamic law impact risk control in Islamic banks. Their study confirmed that higher educational qualifications impact positively, while other SSB characteristics also affect risk indicators in Islamic banks in Indonesia. Sueb, Prasajo, Muhfiatun, Syarifah, and Putra (2022) examined the effects of the SSB, *Sharī'ah* objectives, and risk on the performance of Islamic banks. They indicated that SSB characteristics and risk significantly impact Islamic bank performance. Specifically, SSB characteristics such as size, expertise, education level, dual membership, and reputation, as well as effective implementation of Islamic *Sharī'ah* objectives in Islamic banks, are associated with improved bank performance.

The Presence of Sharī'ah Governance Frameworks and Legislations

The presence of *Sharī'ah* governance frameworks in banks fascinated researchers. Several studies examined the governance systems implemented in different countries. These systems have been confirmed to exist but vary in implementing the specific laws related to *Sharī'ah* governance. Fatmawati, Ariffin, Abidin, and Osman (2020) addressed *Sharī'ah* governance in Islamic banks by analyzing and comparing international and national *Sharī'ah* governance regulations in 11 countries. They found that the countries adopted different approaches in establishing regulations for the structures and processes of *Sharī'ah* governance, ranging from strict to moderate to flexible approaches. Evidently, the approach of each country directly influenced *Sharī'ah* governance practices and institutional applications. Islamic banks in countries that adopted moderate approaches showed more diverse practices in *Sharī'ah* governance activities and operations, and their compliance with *Sharī'ah* principles was clearer than those in countries with more stringent regulations. Analyzing the current practices of *Sharī'ah* governance in these countries can enhance understanding and better address challenges, thereby contributing to the resolution of critical issues under various circumstances. Jan, Lai, Pisol, and Hamad (2020) examined the effectiveness of *Sharī'ah* governance in Islamic banks through advanced regulatory frameworks. They compared theoretically different structures of *Sharī'ah* governance, particularly the centralized structure followed by Pakistan, Malaysia, and Iran, and the decentralized one followed by some GCC countries. The independence of the SSB and its supervisory role were identified as key features of an effective *Sharī'ah* governance framework. The centralized supervisory board structure was found to benefit the Islamic banking industry more, specifically by ensuring consistency in issuing *Sharī'ah* rulings and enhancing the role and independence of the supervisory board in resolving contentious issues. Based on these findings, the conclusion is that *Sharī'ah* governance in Islamic banks and the role of the centralized or decentralized structure of the supervisory board is a key factor in improving the performance of Islamic banks.

On the other hand, Al-Hzym (2020) addressed the theoretical aspects of *Sharī'ah* governance in Islamic banks in three sections, namely, the SSB, as well as internal and external *Sharī'ah* auditing. He examined the legislative and regulatory instruments of the *Sharī'ah* governance apparatus in Islamic banks and assessed the effectiveness of the *Sharī'ah* governance apparatus in financial institutions. Additionally, he identified the achievements and challenges faced by Kuwaiti Islamic banks in the field of governance and presented an applied model for governance implementation in Kuwait. Issa (2019) discussed the governance of *Sharī'ah* supervision and the compatibility of its application with the regulatory framework in Islamic banks. Specifically, he reviewed the functions of the internal *Sharī'ah* auditor, the importance of governance in *Sharī'ah* supervision, the application of *Sharī'ah* governance standards, and the impact of unifying the *Sharī'ah* reference. He emphasized the importance of unifying and centralizing the *Sharī'ah* reference, warning that the incorrect practices of some bank employees and financial institutions deviate from the objectives set by the founders. The findings from this study suggest the benefit of establishing a government committee composed of experts in various economic, legal, accounting, and *Sharī'ah* fields to select SSB members. Similarly, Al-Shhry (2018) reviewed the role of *Sharī'ah* governance in the development of financial institutions, based on the experience of Malaysia. He focused on the legislative regulations in Malaysia and their impact on the operations of Islamic financial institutions, including the role of the Central Bank of Malaysia. He also highlighted the practical applications of *Sharī'ah* governance in Malaysian banks. In conclusion, he confirmed that Malaysia succeeded in establishing strict systems for *Sharī'ah* governance.

Conceptual Framework of Sharī'ah Governance and Practices in Banks

Many researchers have addressed these issues in terms of the practice and framework of the concept of governance. For instance, Alazemi and Al Omari (2020) focused on the principles of governance in Islamic banks and measured the degree of their implementation in Kuwaiti Islamic banks. They adopted a descriptive-analytical approach and discovered that the application of governance principles in Islamic banks in Kuwait was at an intermediate level. The study identified clear deficiencies related to governance in Islamic banks, such as the absence of disclosure and transparency requirements for Islamic financial operations, which differentiate Islamic banks from conventional ones. Additionally, they identified some shortcomings in the fairness of the salary and wage systems compared to those in competing conventional banks and institutions. Al-Noubani and Sadiqi (2016) examined the governance of Islamic financial institutions in four countries: KSA, Sudan, Jordan, and Pakistan. They reviewed the governance practices in these countries, including the legal, *Sharī'ah*, and professional instructions issued by regulatory authorities. One of the prominent findings emphasized the role of governance in enhancing trust in Islamic financial institutions. The presence of organizational structures, communication channels, and transparency contributed to the success of financial institutions. The study also indicated that the lack of a unified *Sharī'ah* reference is one of the major challenges in implementing governance in Islamic financial institutions. Earlier, Al-Wabel (2015) showed the theoretical and conceptual aspects of *Sharī'ah* and institutional governance in Islamic banks, employing a descriptive approach. The study discussed the criteria established by the IFSB and the AAOIFI. It compared governance in conventional banks with that in Islamic banks, highlighting similarities and differences in their respective activities. The role of governance in enhancing the efficiency of Islamic banks and the role of the SSB were also examined. The study concluded that adherence to these aspects in *Sharī'ah* governance activities would develop performance, overcoming various challenges and enhancing competitiveness, operational efficiency, financial performance, and administrative effectiveness. Consequently, it would positively impact the achievement of both religious and worldly objectives. Applying governance principles to *Sharī'ah* governance activities would facilitate obtaining information; exercising control over, and increasing confidence in, various aspects of the performance of Islamic banks; achieving justice and transparency; combating corruption; and enhancing communication with stakeholders. The study highlighted that governance in conventional banks differs from that in Islamic banks due to the presence of the SSB in Islamic banks.

From the above review of previous studies, the originality and contribution of the present study can be identified, as well as highlighting what distinguishes this study from other previous studies in the particular points as follows:

- Most previous studies reviewed the theoretical and regulatory aspects related to *Sharī'ah* governance in financial and banking institutions. Therefore, the current study focuses on the practical aspect of *Sharī'ah* governance by applying it to Saudi banks.
- Most previous studies focused on the governance of the *Sharī'ah* supervision in Islamic banks, whereas the current study addresses *Sharī'ah* governance, including *Sharī'ah* control, *Sharī'ah* auditing, and relevant standards in Islamic banking in KSA.
- Most reviewed studies employed a descriptive approach to answer the research questions. By contrast, the current study utilizes both descriptive and analytical approaches, employing interview and questionnaire tools to answer the research questions and achieve the main research objective.
- Unlike a previous study examining the impact of SSB characteristics on the financial performance of four fully *Sharī'ah*-compliant Saudi banks, this study includes fully *Sharī'ah*-compliant banks, as well as Islamic windows managed by conventional banks in KSA.
- The present study distinguishes itself from previous studies in that it addresses the application of *Sharī'ah* governance in all Saudi banks, considering the framework of *Sharī'ah* governance issued by SAMA, in addition to relevant instructions concerning *Sharī'ah* governance in Saudi banks.
- The present study provides general policy proposals that can assist bank management, regulatory and supervisory authorities, and SAMA in promoting compliance with *Sharī'ah* governance standards and developing their practices in banks and relevant committees. It also aims to help stakeholders and bankers in assessing and overseeing the compliance of banks with *Sharī'ah* governance standards.
- Building on the above, the present paper fills a research gap regarding the application of *Sharī'ah* governance in Saudi banks. To the best of the researcher's knowledge, no study covers these aspects. The present study provides new insights into the reality of implementing and practicing *Sharī'ah* governance in Saudi banks.

Methodology and Data Source

Analytical Framework

When considering the nature of the study and its questions and objectives, the descriptive analytical approach is deemed most appropriate for application. This approach focuses on studying the phenomenon as it exists in reality and utilizes field surveys and interviews with a selected sample to collect data, aiming to describe the studied phenomenon in depth. The following statistical measures are used: Pearson correlation coefficient and Cronbach's alpha coefficient to test the reliability of the study instrument; calculation of means, frequencies, and percentages to identify personal and functional characteristics of the study participants; determination of their responses to the main topics included in the study instrument; and standard deviation to ascertain the extent of deviation in participants' responses to each statement of the study variables and each main topic from their arithmetic mean. One-way analysis of variance (ANOVA), Chi-square test for independence, and t-test verify the differences among the Saudi banks under study, and regression analysis examines the relationship between the dependent variable and independent variables.

Research Variables

Based on the results of some empirical studies such as Bashir (2023) and AlAbbad, Hassan, and Saba (2019), in addition to the nature of the answer to the research questions regarding the questionnaire-based qualitative data, the analytical framework for measuring the extent of commitment of Saudi banks to *Sharī'ah* governance includes several independent and dependent variables, detailed as follows:

- Dependent variable: The level of compliance of Islamic banking in Saudi banks with *Sharī'ah* governance at the three levels of the board of directors, executive management, and *Sharī'ah* board and group.
- Independent variables: These include the six principles of governance (organizational structure, responsibility, disclosure and transparency, independence, supervisory and audit, and confidentiality) and the extent of the availability of executive procedures for *Sharī'ah* governance in banks in KSA.

Population and Sample Size

The study population is defined as the official leaders and advisors holding positions related to *Sharī'ah* governance in 11 Saudi banks in KSA. These 11 banks include four fully *Sharī'ah*-compliant banks, including Al Rajhi Bank, Alinma Bank, Bank AlJazira, and Bank Albilad, and seven others partially complying with *Sharī'ah* principles through Islamic banking windows, including Riyadh Bank, National Commercial Bank, Arab National Bank, Saudi French Bank, Saudi British Bank, Gulf International Bank, and Saudi Investment Bank. The sample includes 95 individuals knowledgeable in administrative and executive work, or contractual consulting employees who actively implement *Sharī'ah* governance and involvement in *Sharī'ah* governance practices. A survey questionnaire was designed to answer the research questions and explore the study participants' attitudes toward its variables. Based on purposive sampling selection, questionnaires were distributed online via email. The distribution and collection of the questionnaire proceeded from March 1, 2022, to April 15, 2022. The response rate was 71%, which is considered very good and acceptable.

Questionnaire Content

The questionnaire was designed to achieve the objectives of the study and address its research questions and consists of three main dimensions:

- 1) Dimension 1: Measures the commitment of Saudi banks to the application of *Sharī'ah* governance, consisting of eight statements.
- 2) Dimension 2: Measures the level of *Sharī'ah* governance implementation in Saudi banks, consisting of 26 statements.
- 3) Dimension 3: Measures the requirements for the availability of executive procedures to implement *Sharī'ah* governance in Saudi banks, consisting of seven statements.

These three dimensions comprise a set of statements directed toward the respondents to measure their opinions on a five-point scale (Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree). The total number of statements in the questionnaire is 41.

Various appropriate statistical methods were used to analyze the data after encoding and data entry. To determine the length of the five-point Likert scale used in the study dimensions (lower and upper limits), the range was calculated and divided by the number of scale cells to obtain the correct cell length. For example, $0.80 = 5/4$ was added to the lowest value on the scale (or the starting point, which is the correct one) to determine the upper limit of the cell. Consequently, the cell lengths are shown in Table 2.

Table 2: Cell Length of the Five-point Scale

Opinion	Mean Categories
Strongly disagree	1.00–1.79
Disagree	1.80–2.59
Neutral	2.60–3.39
Agree	3.40–4.19
Strongly agree	4.20–5.00

Validity and Reliability

Validity and reliability are associated with the tools used in the research and their ability to measure what is intended to be measured, as well as the accuracy of the readings obtained from these tools. Therefore, several procedures were conducted to ensure validity and reliability.

Validity

A tool is considered valid if it measures what it claims to measure. To ensure the validity of the tool, the following types of validity were used:

- **Face validity:** To assess the soundness, form, and relevance of the questionnaire to the research topic, it was presented to experts and specialists in the field for their opinions. These experts provided feedback regarding linguistic accuracy, clarity of expressions, and coherence of statements and paragraphs.
- **Content validity:** To verify the content validity of the tools, they were presented to a specialist group for the content analysis of the statements within them, ensuring their alignment with the research objectives.
- **Construct validity:** The questionnaire statements were formulated in a manner consistent with the concepts used in interpreting the research problem and the provisions of the *Sharī'ah* governance framework issued by SAMA.
- **Internal consistency validity:** The Pearson correlation coefficient was calculated to determine the validity of the internal consistency of the questionnaire. The correlation coefficient was computed between the score of each statement and that of the corresponding section to which the statement belongs, as well as the total score of the questionnaire, as shown in Table 3. Descriptive statistical analysis revealed that all correlation coefficients between each statement of the three sections and the total score of each section were positive and statistically significant at a significance level of 0.01. Moreover, all correlation coefficients were strong, exceeding 0.5, except for a small number of cases close to that value, indicating a strong internal consistency of all statements within each section of the questionnaire.

Table 3: Correlation Coefficients for the Questionnaire Sections

Section	Correlation Coefficient
First section	0.713**
Second section	0.874**
Third section	0.860**

Note: **level of significance is 0.01 or lower.

To assess the overall internal consistency of the questionnaire, correlation coefficients were calculated between the total score of each section and the overall score of the questionnaire. Based on the results presented in Table 3, the correlation coefficients ranged from 0.713 to 0.874, indicating strong positive and statistically significant correlations between each section and overall score of the questionnaire. This observation indicates the internal consistency among the questionnaire sections.

Reliability

Tool reliability refers to the degree to which the tool provides consistent or similar scores across different times or under different conditions when applied to the same or a similar sample from the same population. To measure tool stability, Cronbach's Alpha coefficient (α) was used. The results in Table 4 show that the overall reliability coefficient was high, with a value of 0.932, according to Cronbach's Alpha coefficient, indicating that the questionnaire has a high degree of consistency and is reliable.

Table 4: Reliability Measures

Survey Section	Number of Items	Reliability Coefficient
Level of compliance of Saudi banks with <i>Sharī'ah</i> governance	8	0.839
Implementation of <i>Sharī'ah</i> governance in Saudi banks	26	0.896
Availability of executive procedures for <i>Sharī'ah</i> governance in Saudi's banks	7	0.837
Overall reliability	41	0.932

Results and Discussion

Demographic Characteristics of Respondents

This section presents the results of the field survey and addresses the research questions by examining the opinions and attitudes of the participants, regarding the main sections of the survey questionnaire. The following information is provided:

1. Distribution of the Sample by Gender: As shown in Figure 1, an overwhelming majority of participants were men, accounting for 95.8% of the total sample, whereas women comprised only 4.2%.

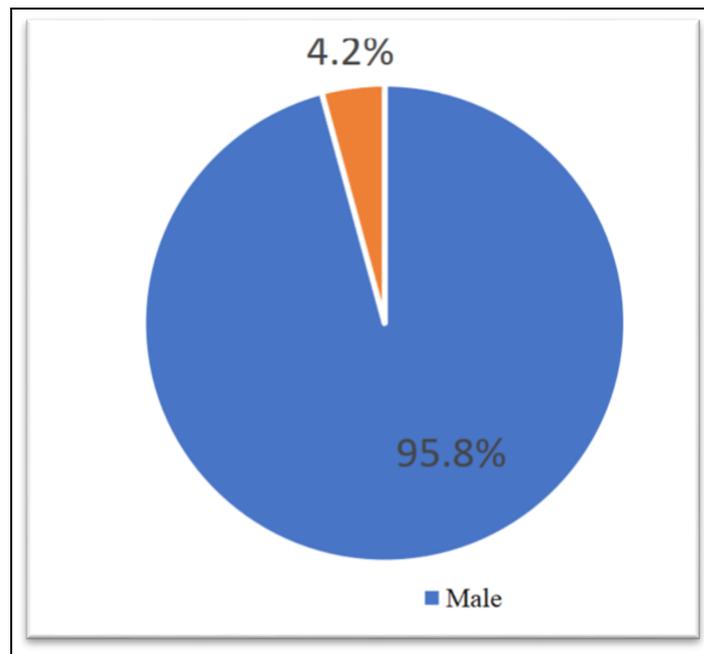


Figure 1: Distribution of respondents by gender.

2. Distribution of the sample by educational qualification: As shown in Figure 2, the majority of participants had acquired either a master's or a bachelor's degree, comprising 44.2% and 41.1%, respectively. The percentage of individuals with a Ph.D. was 13.7%, while that of individuals with a lower educational level was minimal.

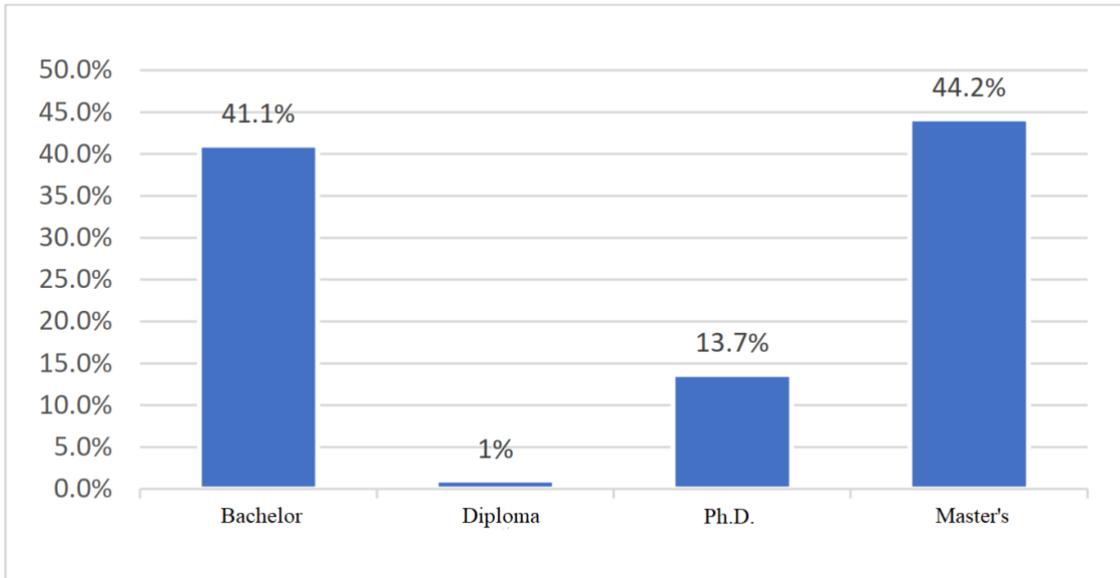


Figure 2: Distribution of respondents by educational qualification.

- 3) Distribution of the sample by bank: As shown in Figure 3, most participants (18.9%) work in Al-Rajhi Bank, followed by Saudi British Bank and Alinma Bank (16.8%); Al-Bilad Bank (15.8%); Riyadh Bank, SABB, and Saudi French Bank (4.2% each); Saudi Investment Bank (2.1%); and Gulf International Bank (1.1%). This distribution can be attributed to the presence of a great number of employees in Islamic banking and the expansion of Islamic banking activities in Al-Rajhi Bank, Saudi British Bank, Alinma Bank, and Al-Bilad Bank, compared to the limited number of employees and activities in Islamic banking represented by Gulf International Bank, Saudi Investment Bank, and Saudi French Bank.
- 4) Distribution of the sample by years of experience: The results indicated in Figure 4 show that 37.9% of participants have four or fewer years of experience, which likely indicates the inclusion of young individuals interested in working in the Islamic banking sector; 27.3% have 5–14 years of experience; and 34.7% have 15 or more years. This indicates the presence of employees with sufficient experience in the Islamic banking sector in KSA and the potential to effectively utilize it for sector development.

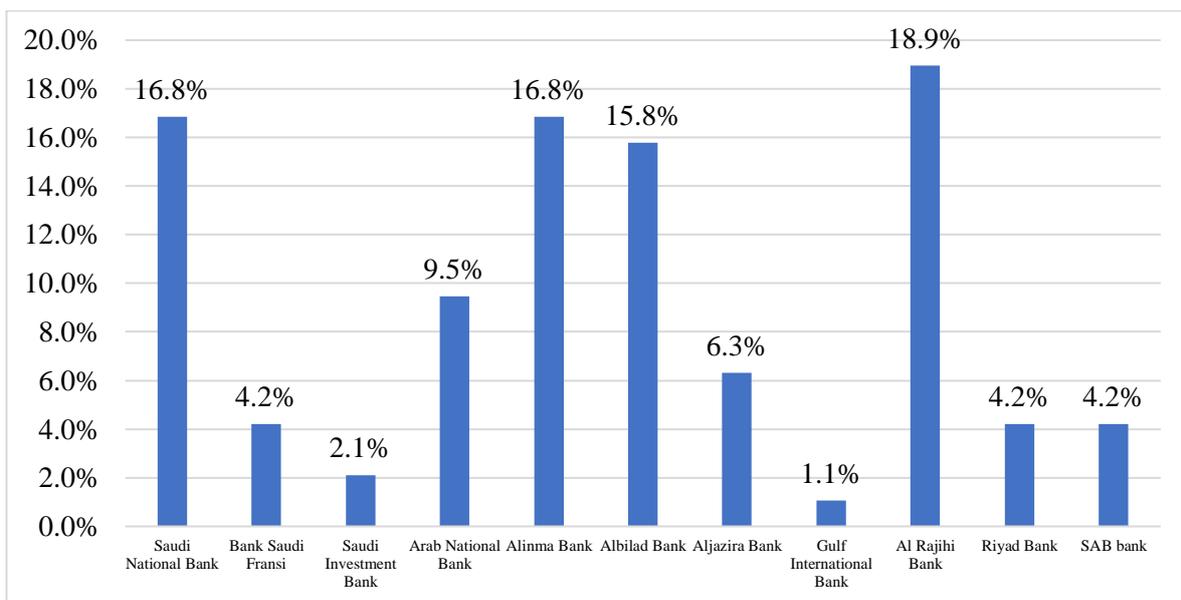


Figure 3: Distribution of respondents by bank

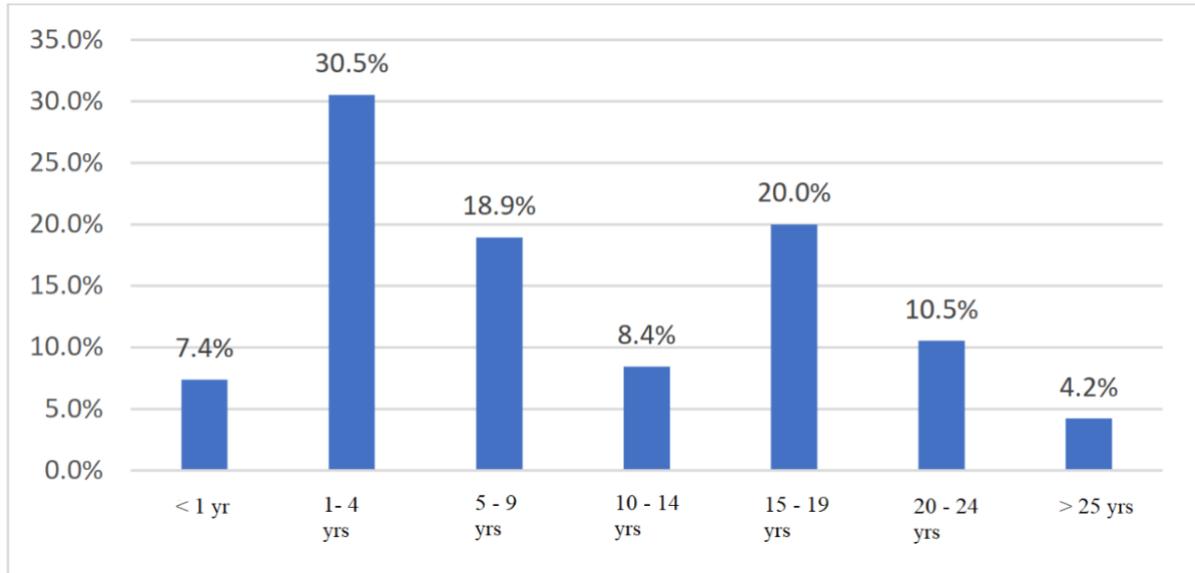


Figure 4: Distribution of respondents by years of experience.

Answering the Research Questions

This section presents the field survey results regarding the study questions, revolving around the extent of the commitment of Saudi banks in KSA to the application of *Sharī'ah* governance, the level of implementation, and the availability of executive procedures for *Sharī'ah* governance in Saudi banks.

Table 5 indicates that the overall mean for the statements in the section, regarding the extent of the commitment of Saudi banks to the application of *Sharī'ah* governance was 4.6, with a standard deviation of 0.424. The relative weight for agreement was 92.6%, which falls within the fourth category of the five-point scale (5.00–4.20), indicating “strongly agree.” This result suggests that the sample participants perceive a high level of commitment from Saudi banks in the application of *Sharī'ah* governance. This level can be attributed to the banks recognizing the importance of *Sharī'ah* governance and their significant response to its requirements, surpassing the minimum requirements outlined in the framework of *Sharī'ah* governance issued by SAMA.

Table 5: Level of Compliance of Banks with *Sharī'ah* Governance

Statement	1	2	3	4	5	Mean	Standard Deviation	Relative Weight	Assessment
The board of directors is responsible for the bank’s compliance with <i>Sharī'ah</i> governance	1 (1.1)	2 (2.1)	5 (5.3)	21 (22.1)	66 (69.5)	4.6	0.781	91.4	Strongly agree
The bank complies with decisions issued by the <i>Sharī'ah</i> committee	0 (0.0)	0 (0.0)	2 (2.1)	20 (21.1)	73 (76.8)	4.7	0.483	94.9	Strongly agree
The bank adheres to <i>Sharī'ah</i> governance principles in its relationships with stakeholders	0 (0.0)	0 (0.0)	6 (6.3)	24 (25.3)	65 (68.4)	4.6	0.605	92.4	Strongly agree
The <i>Sharī'ah</i> committee applies <i>Sharī'ah</i> governance principles in its practices	0 (0.0)	0 (0.0)	2 (2.1)	25 (26.3)	68 (71.6)	4.7	0.507	93.9	Strongly agree

There is <i>Sharī'ah</i> compliance in Islamic banking operations	0 (0.0)	0 (0.0)	5 (5.3)	30 (31.6)	60 (63.2)	4.6	0.594	91.6	Strongly agree
The executive management adheres to <i>Sharī'ah</i> governance principles in its banking practices	0 (0.0)	0 (0.0)	12 (12.6)	27 (28.4)	56 (58.9)	4.5	0.712	89.3	Strongly agree
The executive management complies with <i>Sharī'ah</i> rulings issued by the <i>Sharī'ah</i> committee	1 (1.1)	0 (0.0)	6 (6.3)	26 (27.4)	62 (65.3)	4.6	0.710	91.2	Strongly agree
The members of the <i>Sharī'ah</i> committee maintain the confidentiality of the bank's information	0 (0.0)	0 (0.0)	3 (3.2)	14 (14.7)	78 (82.1)	4.8	0.481	95.8	Strongly agree
Overall	2 (0.3)	2 (0.3)	41 (5.4)	187 (24.6)	528 (69.5)	4.6	0.424	92.6	Strongly agree

Notes: Strongly disagree = 1; Disagree = 2; Not sure = 3; Agree = 4; Strongly agree = 5.

The numbers in parentheses indicate the percentage of respondents for each statement according to the five-point scale.

Table 6: Implementation Level of *Sharī'ah* Governance Dimensions in Banks

Governance Dimensions	Mean	Standard Deviation	Relative Weight	Agreement Level	Rank
Organizational structure of <i>Sharī'ah</i> governance	4.6	0.532	92.4	Strongly agree	1
Responsibility	4.3	0.581	86.0	Strongly agree	2
Disclosure and transparency	4.5	0.506	90.3	Strongly agree	3
Independence and confidentiality of information	4.5	0.549	89.6	Strongly agree	4
Control, auditing, and accountability	4.4	0.597	88.7	Strongly agree	5
Overall	4.5	0.420	89.4	Strongly agree	

Regarding ranking, the organizational structure of *Sharī'ah* governance in Saudi banks has received significant attention, followed by responsibility, disclosure, transparency, and independence. In the last position after control, review, and accountability, this ranking reflects the role of the *Sharī'ah* governance framework in enhancing the regulatory foundations of governance in Saudi banks and the efforts of banks to meet governance requirements. However, the lower ranking of control, review, and accountability (despite their positive position compared to other dimensions of *Sharī'ah* governance) indicates some technical challenges faced by banks in establishing *Sharī'ah* governance practices, particularly regarding *Sharī'ah* control, internal and external auditing, and Islamic windows in conventional banks. In this context, the need for training, capacity building, and support from the central bank is necessary to overcome obstacles and address the challenges faced by some banks in these aspects.

On the other hand, Figure 5 illustrates the ranking of *Sharī'ah* governance dimensions according to their level of implementation in Saudi banks from the perspective of the sample respondents. The organizational structure dimension is the most implemented dimension in the studied banks, with an average score of 4.6, followed by the disclosure, transparency, independence, and confidentiality dimension, with an average score of 4.5. The control, review, and accountability dimension ranked third, with an average score of 4.4, while the responsibility dimension ranked fourth, with an average score of 4.3. The focus of the banks on organizational structure and the dimensions of disclosure, transparency, and independence can be attributed to the evolution of practices in Saudi banks and their commitment to implementing the requirements of the *Sharī'ah* governance framework. This finding is supported by a strong commitment among the boards of directors of Saudi banks to *Sharī'ah* governance and the continuous guidance and instructions provided by the central bank, regarding governance practices and their enhancement.

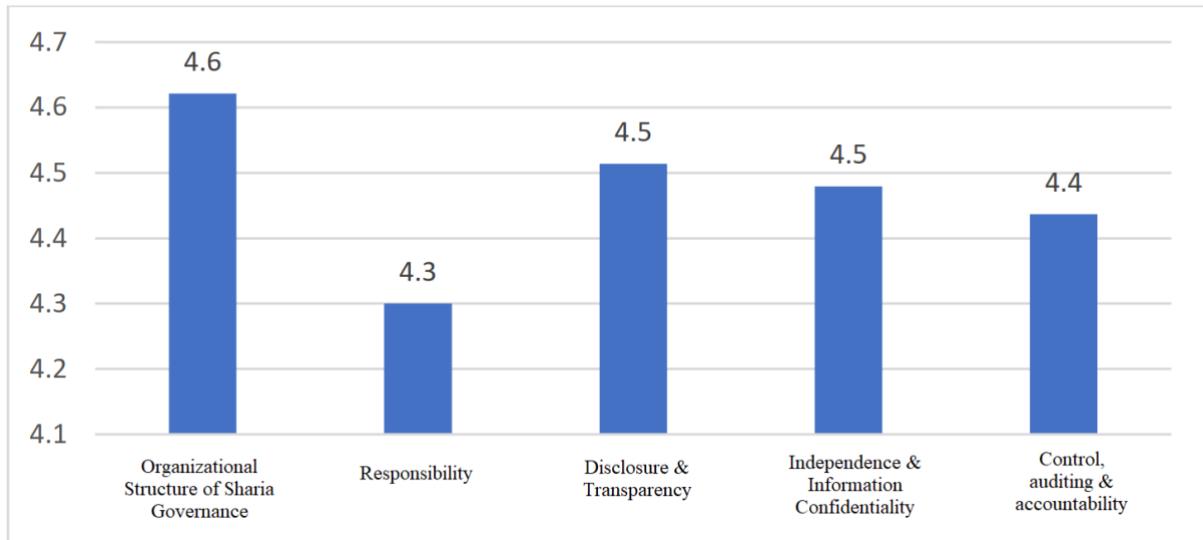


Figure 5: Responses of respondents regarding the level of *Sharī'ah* governance implementation

Table 7: *Sharī'ah* Governance Level in Banks by Dimensions

Statement	1	2	3	4	5	Mean	Standard Deviation	Relative Weight	Assessment
Organizational structure of <i>Sharī'ah</i> governance	0 (0.0)	1 (1.1)	2 (2.1)	16 (16.8)	76 (80.0)	4.6	0.532	92.4	Strongly agree
Responsibility	0 (0.0)	0 (0.0)	5 (5.3)	33 (34.7)	57 (60.0)	4.3	0.581	86.0	Strongly agree
Disclosure and transparency	0 (0.0)	0 (0.0)	4 (4.2)	21 (22.1)	70 (73.7)	4.5	0.506	90.3	Strongly agree
Independence and confidentiality of information	0 (0.0)	0 (0.0)	5 (5.3)	24 (25.3)	66 (69.5)	4.5	0.549	89.6	Strongly agree
Control, auditing, and accountability	0 (0.0)	1 (1.1)	5 (5.3)	27 (28.4)	62 (65.3)	4.4	0.597	88.7	Strongly agree
Overall	33 (1.3)	72 (2.9)	204 (8.3)	522 (21.1)	1639 (66.4)	4.5	0.420	89.2	Strongly agree

Notes: Strongly disagree = 1; Disagree = 2; Not sure = 3; Agree = 4; Strongly agree = 5.

The numbers within parentheses indicate the percentage of respondents for each statement according to the five-point scale.

The results presented in Table 7 demonstrate that the overall average mean of respondents' responses regarding the level of *Sharī'ah* governance implementation in Saudi banks is 4.5, with a standard deviation of 0.420 and a relative weight of agreement of 89.2%. This average falls within the fourth category of the five-point scale (5.00–4.20), indicating an inclination toward “strongly agree.” This result indicates that the respondents perceive the *Sharī'ah* governance validity in Saudi banks in KSA to be highly significant. This perception can be attributed to the considerable emphasis placed by banks on *Sharī'ah* governance, accompanied by support from SAMA and its directives to implement the *Sharī'ah* governance framework.

Table 8: The Extent of Availability of Executive Procedures for *Sharī'ah* Governance in Banks

Statement	1	2	3	4	5	Mean	Standard Deviation	Relative Weight	Assessment
The <i>Sharī'ah</i> auditor examines banking activities and verifies their technical and <i>Sharī'ah</i> compliance	0 (0.0)	0 (0.0)	4 (4.2)	23 (24.2)	68 (71.6)	4.67	0.554	93.47	Strongly agree
The <i>Sharī'ah</i> auditor possesses the necessary knowledge for conducting <i>Sharī'ah</i> audits in Islamic banking operations	0 (0.0)	0 (0.0)	6 (0)	25 (26.3)	64 (67.4)	4.61	0.607	92.21	Strongly agree
There are procedures in place for holding meetings of the <i>Sharī'ah</i> committee and submitting reports	0 (0.0)	1 (1.1)	1 (1.1)	19 (20.0)	74 (77.9)	4.75	0.525	94.95	Strongly agree
There is an ongoing evaluation of the bank's adherence to <i>Sharī'ah</i> principles and regulations by the <i>Sharī'ah</i> committee	0 (0.0)	2 (2.1)	9 (9.5)	20 (21.1)	64 (67.4)	4.54	0.755	90.74	Strongly agree
The bank provides training courses to employees on best practices in <i>Sharī'ah</i> governance	1 (1.1)	12 (12.6)	19 (20.0)	29 (30.5)	34 (35.8)	3.87	1.074	77.47	Agree
There is an organizational culture in the bank that supports the implementation of <i>Sharī'ah</i> governance principles	1 (1.1)	6 (6.3)	15 (15.8)	32 (33.7)	41 (43.2)	4.12	0.966	82.32	Agree
There are professional criteria in the bank for selecting employees in Islamic banking	1 (1.1)	3 (3)	15 (15.8)	31 (32.6)	45 (47.4)	4.22	0.901	84.42	Strongly agree
Overall	3 (0.5)	24 (3.6)	69 (10.4)	179 (26.9)	390 (58.6)	4.40	0.599	87.94	Strongly agree

Note: Strongly disagree = 1; Disagree = 2; Not sure = 3; Agree = 4; Strongly agree = 5.

According to Table 8, the overall average mean of participants' responses regarding the availability of executive procedures for *Sharī'ah* governance in Saudi banks in KSA is 4.4, with a standard deviation of 0.599 and a relative weight of agreement of 87.94%. This average falls within the fourth category of the five-point scale (5.00–4.20), indicating an inclination toward “strongly agree.” This result indicates that the sample respondents perceive the availability of executive procedures for *Sharī'ah* governance in Saudi banks in KSA to be highly significant. Overall, this is attributed to the focus of the banks on implementing the executive procedures that align with *Sharī'ah* governance practices, as well as the support provided by SAMA and its directives to enhance and implement *Sharī'ah* governance.

Chi-Square Test for Independence

In this section, the results are presented of the chi-square test conducted to test the differences between two qualitative variables, namely, the type of bank (full-fledged Islamic bank or conventional bank with Islamic windows) and either the level of *Sharī'ah* governance compliance, the governance organizational structure, the application of the accountability principle, or the availability of executive procedures.

From the first row of Table 9, the chi-square value is 7.135 with 2 degrees of freedom, and the *p*-value is 0.028, which is less than the significance level of $\alpha = 0.05$. This means that the differences in the opinions and attitudes of respondents are statistically significant, based on the type of bank and the level of *Sharī'ah* governance compliance. This result indicates variations between the banks studied in terms of *Sharī'ah* governance practices, which are associated with the size of Islamic banking activities within each bank. Clear differences are observed between banks that fully comply with Islamic principles and those that partially implement them.

Table 9: Chi-square Test for Independence

Independence Test between Two Qualitative Variables	Chi-square Value	Degree of Freedom	<i>P</i>-value
Type of bank and the level of the bank's commitment to <i>Sharī'ah</i> governance implementation	7.135	2	0.028
Type of bank and the organizational structure of <i>Sharī'ah</i> Governance	8.103	3	0.044
Type of bank and accountability	13.996	3	0.003
Type of bank and the availability of executive procedures for <i>Sharī'ah</i> governance in the bank	9.955	2	0.007

As shown in the second row of Table 9, the chi-square value is 8.103 with 3 degrees of freedom, and the *p*-value is 0.044, which is less than the significance level of $\alpha = 0.05$. This means that the differences in the opinions and attitudes of the sample respondents are statistically significant, based on the type of bank and the governance organizational structure. This result indicates variations between the banks studied in terms of *Sharī'ah* governance practices and institutional readiness in terms of organizational structure and administrative systems.

As shown in the third row of Table 9, the chi-square value is 13.996 with 3 degrees of freedom, and the *p*-value is 0.003, which is less than the significance level of $\alpha = 0.05$. This means that the differences in the opinions and attitudes of the sample respondents are statistically significant, based on the type of bank and the accountability principle. This result indicates variations between the banks studied in terms of *Sharī'ah* governance practices related to the accountability principle.

As shown in the fourth row of Table 9, the chi-square value is 9.955 with 2 degrees of freedom, and the *p*-value is 0.007, which is less than the significance level of $\alpha = 0.05$. This means that the differences in the opinions and attitudes of the sample respondents are statistically significant, regarding the adequacy of the executive procedures for *Sharī'ah* governance in Islamic banking, based on the type of bank. This result indicates variations between the banks studied in terms of *Sharī'ah* governance practices and the institutional readiness of each bank in terms of governance frameworks and systems. The distinction is clear between banks having extensive *Sharī'ah*-compliant activities and a long history of

good governance practices and those with limited Islamic banking activities and newer governance practices.

ANOVA One-Way Test

The results of the variance test indicate statistically significant differences in the opinions and attitudes of respondents, regarding the application of the accountability dimension in *Sharī'ah* governance in Islamic banking in KSA and the adequacy of the executive procedures for *Sharī'ah* governance in Islamic banking. This difference can be attributed to the different types of banks as the significance levels of the respondents' opinions (0.001 and 0.013) are lower than 0.05. This level means that the variable of the bank type (in terms of Islamic banking activities) influences the opinions of the sample respondents regarding the application of the accountability dimension in *Sharī'ah* governance and the adequacy of the executive procedures for *Sharī'ah* governance in Islamic banking. Banks with larger sizes and established governance practices differ from banks with limited Islamic banking activities and newer governance practices.

Table 10: T-test Result

Governance Indicator	t	df	P-value	Mean Difference	Std. Error Difference
Section 1: Level of Islamic banking's commitment to the implementation of <i>Sharī'ah</i> governance principles	2.744	93	0.007*	0.246	0.089
Section 2: Implementations and practices of <i>Sharī'ah</i> governance in Islamic banking	1.354	93	0.179	0.132	0.097
Dimension 1: Organizational structure of <i>Sharī'ah</i> governance	1.886	93	0.062	0.211	0.112
Dimension 2: Responsibility	-1.846	93	0.068	-0.228	0.124
Dimension 3: Disclosure and transparency	0.918	93	0.361	0.105	0.115
Dimension 4: Independence	-0.935	93	0.352	-0.114	0.122
Dimension 5: Accountability	3.046	93	0.003*	0.395	0.130
Section 3: Availability of executive procedures for <i>Sharī'ah</i> governance	2.800	93	0.006*	0.351	0.125

Note: *The significance level is 0.05 or lower.

Regarding the t-test, Table 10 indicates the presence of statistically significant differences in the mean responses of participants between full-fledged Islamic banks and conventional banks with Islamic windows, specifically in the following aspects:

- The level of commitment of Saudi banks to *Sharī'ah* governance.
- The extent of availability of executive procedures for *Sharī'ah* governance.
- Dimensions of responsibility and accountability.

Based on the accompanying *p*-value for *t* (*t*-value) being greater than the significance level (0.05), the statistical evidence of differences between the mean of banks practicing full-fledged Islamic banking and Islamic windows in conventional banks is insufficient in terms of the section of *Sharī'ah* governance implementations and practices of *Sharī'ah* governance in Saudi banks, organizational structure, responsibility, disclosure and transparency, and independence.

The results of the descriptive statistics, including sample size, mean, standard deviation, and standard error for each of the selected dimensions and sections of *Sharī'ah* governance in Saudi banks, showed differences in means among the banks under study. This finding implies a preference for governance practices in banks that fully comply with *Sharī'ah* principles rather than for Islamic windows in conventional banks.

Analysis of Variance and Regression Results

To assess the impact of implementing *Sharī'ah* governance dimensions in Saudi banks and the availability of executive procedures for them (independent variables X_1 and X_2) on the level of commitment of Saudi banks (full-fledged Islamic banking and conventional banks with Islamic windows) to *Sharī'ah* governance (dependent variable Y), a multiple regression model was utilized.

Table 11: The Results of Variance and Regression Analysis

F	Level of Significance	R	R ²	W-D	VIF
41.291	0.000	0.69	0.47	1.58	1.97

The results of ANOVA and regression, as shown in Table 11, contain the following implications.

- The positive and direct impact of the independent variables on the dependent variable is statistically significant, at a level of 0.05.
- The Durbin-Watson statistic value for the model is 1.58, falling within the acceptable range of 1.45–2.44 and confirming the absence of autocorrelation in the data. Additionally, the variance inflation factor (VIF) values equal 1.97, indicating the absence of multicollinearity issues among the variables and, as they are below 5, ensuring the reliability of the estimates.
- The multiple correlation coefficient (R) value is 0.69, indicating a moderate positive relationship between the variables in the model.
- The coefficient of determination (R²) indicates that 47% variation in the dependent variable is attributed to the independent variables, while the remaining is attributed to other factors not included in the model. Generally, an average R-square is acceptable in empirical research in the field of finance and social science when some or most of the explanatory variables are statistically significant (Ozili, 2022).
- The ANOVA demonstrates a significant test result with an F -value of 41.291 and a p -value of 0.000, which is less than 0.05. This confirms the overall significance of the regression model.

Table 12: Regression Model Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	T	
(Constant)	1.538	0.348		4.424	0.000
X_1	0.419	0.106	0.415	3.962	0.000
X_2	0.277	0.088	0.332	3.168	0.002

Note: Y = dependent variable; (Constant), X_1 , X_2 = predictors.

Table 12 presents the results of the multiple linear regression model for the relationship between the level of commitment to Islamic banking regarding *Sharī'ah* governance in Saudi banks, the implementation of *Sharī'ah* governance dimensions, and the availability of executive procedures in Saudi banks. The results indicate a statistically significant positive relationship at a significance level of 0.05 between the dependent variable and the independent variables, therefore, supporting the alternative hypothesis accepting the presence of an impact between the variables.

Conclusion

The salient conclusions of this study can be summarized as follows:

1. Saudi banks in KSA show a high level of commitment to implementing *Sharī'ah* governance principles and standards, surpassing the minimum requirements outlined in the *Sharī'ah* governance framework issued by SAMA.
2. Based on the perspectives of respondents in the sample, the dimensions of governance in Saudi banks were ranked according to their implementation level. The organizational structure dimension was the most implemented, followed by disclosure and transparency; independence and confidentiality of information; and control, audit, and accountability. This ranking indicates the focus of the bank on the organizational structure, as well as their evolving practices related to disclosure, transparency, and independence, in line with the requirements of the *Sharī'ah* governance framework. It also reflects the strong commitment of the boards of directors of Saudi banks to *Sharī'ah* governance, as well as the guidance and instructions provided by SAMA regarding *Sharī'ah* governance practices and their continuous enhancement.
3. The study results reveal statistically significant variations in the opinions and attitudes of the sample participants, regarding the availability of *Sharī'ah* governance implementation procedures among different banks. This finding indicates the variation in *Sharī'ah* governance practices among the studied banks, which is linked to the volume of Islamic banking activities and the institutional readiness in terms of frameworks and regulations related to governance within each bank. The differences are evident between banks with extensive activities that are fully *Sharī'ah*-compliant and have a long history of good governance practices and those that have implemented such practices only relatively recently.
4. The study results show diverse opinions among sample participants regarding the most effective ways to implement *Sharī'ah* governance in Saudi banks. Some believe that the implementation should be carried out in stages, to learn from mistakes and gradually enhance and generalize the framework. Others emphasize the necessity of maintaining a *Sharī'ah* supervision unit linked to the central bank, to monitor the implementation process, provide continuous awareness about the importance of *Sharī'ah* governance, develop and review regulations and guidance, and promote ongoing compliance. Some participants highlight the importance of capacity building and competency development to ensure proper framework implementation.
5. The study confirms the positive impact of implementing *Sharī'ah* governance dimensions and the availability of implementation procedures on the level of compliance with Islamic principles in Saudi banks. This study also underscores the importance of continuous implementation of *Sharī'ah* governance in its various dimensions and the need for meeting all its requirements. It also emphasizes the need for coordinating and leveraging the support provided by SAMA in this field. Additionally, it highlights the significance of developing *Sharī'ah* governance practices as an effective means to enhance transparency, integrity, effective control, and protection of stakeholders' rights.

Policy Implications

The findings of this study have some important implications and suggestions that can be summarized as follows:

1. A high-level administrative unit needs to be established for *Sharī'ah* supervision within the Saudi Central Bank, along with subsidiary committees for each bank. This move will ensure coordination among all parties involved in developing *Sharī'ah* governance practices in the banking sector in KSA. Integration and coordination between SAMA and Saudi banks should be enhanced to further develop and improve the *Sharī'ah* governance framework. The framework should provide a general basis for banks to add provisions that align with their business models without conflicting with the overall *Sharī'ah* governance framework issued by SAMA.

2. Activating the roles and responsibilities of the *Sharī'ah* compliance and control units is necessary, granting them the necessary authorities to ensure proper implementation of Islamic banking activities.
3. Formulating standardized performance indicators is important to measure the extent of implementing *Sharī'ah* governance standards in Saudi banks in KSA, utilizing artificial intelligence techniques in this regard.
4. The need to issue a guidance manual in collaboration with experienced professionals in Islamic banking and draw from international best practices in the application of *Sharī'ah* governance principles is urgent. This will facilitate knowledge transfer and promote proper practices among Saudi banks in KSA, serving as a professional reference to enhance the level of *Sharī'ah* governance practices.
5. The Central Bank should dedicate more efforts to organizing meetings and workshops and should leverage international experiences to discuss and exchange ideas on best practices in implementing *Sharī'ah* governance. The Central Bank should conduct further field research to uncover methods and practices in applying *Sharī'ah* governance in KSA banks.
6. Providing training programs and professional certifications in Islamic banking is needed for employees, accredited by local and international professional bodies.
7. Future studies should contribute to building a guiding operational model based on the internal workings of the *Sharī'ah* board in banks, including key units such as the advisory unit, *Sharī'ah* compliance unit, and *Sharī'ah* control unit, in addition to their respective tasks and authorities.
8. Efforts should be made to develop a proposed framework for applying *Sharī'ah* governance in Saudi banks, aligned with regulatory and legislative transformations in the banking and financial sector.
9. The limitation of this study in choosing some variables related to governance provides a foundation for future studies. All dimensions of *Sharī'ah* governance and its requirements should be included in the analysis and subsequently considered when studying the determinants of the level of governance applications and practices in Saudi banks.

Conflict of Interest

Authors have no conflict of interest to declare.

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