

## Assessing the Role of Executive Procedures in Shaping Shari'ah Governance Commitments in Saudi Banks

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### Abstract

*This paper investigates the relationship between governance dimensions and the level of commitments to Shari'ah (Islamic law) governance framework within Saudi banks. To understand the intricacies of governance dimensions in shaping Shari'ah governance practices in depth, this paper also examines the mediating role of executive procedures. Structural equation modeling is used to test the hypotheses regarding the relationship between studied variables. The findings underscore the role of executive procedures, disclosure and transparency in fostering commitments to Shari'ah governance framework, with both constructs exhibiting substantial direct effects on Shari'ah governance commitment level. Additionally, the study underscores the importance of monitoring, auditing, and accountability as crucial determinants of governance in banks, highlighting the importance of robust oversight mechanisms in ensuring adherence to Shari'ah principles. Meanwhile, organisational structure exhibited a minor decrease in its direct effect on commitment to Shari'ah governance. The findings of this paper can guide the strategic decision-making process for promoting ethical and sustainable Shari'ah governance practices in Saudi banks. It also fills the existing gap in literature regarding the relationship between the dimensions of governance and the obligations of Shari'ah governance framework in Saudi banks.*

**Keywords:** *Shari'ah governance, Islamic banking, governance framework, governance practices, Saudi banks, Islamic finance.*

### Introduction

In recent years, the landscape of banking governance and compliance with Shari'ah (Islamic law) principles has garnered increasing attention, particularly following the emergence of Islamic banking alongside the conventional banking system. Shari'ah governance is defined as the internal mechanism which helps to ensure that an Islamic financial institution complies with the Shari'ah in its operations and activities (Grassa, 2013; Alam, 2019; Mansoor et al., 2020; Alam, et al. 2021;). This paper investigates this crucial intersection by examining the relationship between governance dimensions and level of commitments to Shari'ah governance framework in Saudi banks. With the aim of understanding the intricacies of governance structures in shaping Shari'ah compliance, this research investigates the mediating role of executive procedures and measures within Shari'ah governance framework in Saudi Arabia. As Islamic banking and finance continue to expand globally, understanding the nuances of governance mechanisms becomes imperative for both regulatory authorities and banking institutions to ensure sustainable and ethical financial practices.

Saudi Arabia 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 the Kingdom's total Islamic finance sector assets globally to 22.5% by 2025, compared to 21% in 2018 (Financial Sector Development Program, 2021: 74-75). The Saudi Central Bank (SAMA) has issued several key principles for Shari'ah governance, forming a framework to assist banks in enhancing overall governance (SAMA, 2020). This framework represents the minimum supervisory and regulatory requirements for promoting Shari'ah governance practices in banks operating in Saudi Arabia (Bashir & Babiker, 2023a).

Saudi banking establishments are witnessing an increased interest in the relationship between governance dimensions and their dedication levels to Shari'ah frameworks. Although Shari'ah compliance holds a significant role in Islamic finance, there is still a void in literature about how these governance dimensions

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affect such commitments— including whether executive procedures mediate this influence. Hence, the main aim of this research is twofold: first, to study the connection between governance dimensions and commitment levels to Shari'ah frameworks among Saudi banks; and secondly, to investigate the impact that executive procedures have within this set framework.

## Research Questions

Specifically, this study attempts to answer the following questions:

What is the relationship between governance dimensions and the level of Shari'ah governance commitments in Saudi Banks?

Does the availability of executive procedures for Shari'ah governance play a mediating role in this relationship?

## Significance of the Study

The significance of this study lies in its focus on the applications and practices of Sharia governance within local banks in the Kingdom of Saudi Arabia. Theoretical significance is derived from its contribution to the literature on Shari'ah governance, as it increases our understanding of commitments and practices within Saudi banks. On practical level, this study can help policy-makers in the regulatory authority in monitoring the progress made in implementing the Shari'ah governance framework in local banks in Saudi Arabia as well as identify the level of implementation of Shari'ah governance framework within these institutions.

## Literature Review

Practices of Shari'ah governance in Saudi banks is a central issue in this study due to two reasons. Firstly, is its importance in developing the practices of Saudi banks and achieving complete compliance with Shariah principles. Secondly, its crucial role in improving the quality and performance of Islamic banks in Saudi Arabia in the field of Islamic banking and finance at regional and international levels. There are a few studies that examined the practices of Shari'ah governance in Saudi banks.

Aljuaid et al. (2022) is the pioneer study that focuses on Saudi bank Shari'ah governance practices in light of the Shari'ah governance framework issued by the Saudi Central Bank in year 2020. They used the descriptive analytical approach to analyze the data obtained through questionnaires and interviews with administrative and executive consultants of Shari'ah committees in Saudi banks. The results confirmed that there are differences between local banks in the levels of commitment to the application of Shari'ah governance. It indicated that the Islamic banks showed high level of commitments for implementing Shariah governance requirements compared to conventional banks with Islamic windows. Specifically, the results showed differences in the sufficiency of the executive procedures for the implementation of Shariah governance due to the variation among these banks in size, types of products, and nature of the organization structure.

More recently, Bashir & Babiker (2023b) evaluated Shari'ah governance practices in Saudi Arabian banks. They examined the level of adherence to Shari'ah governance principles, institutional frameworks, regulatory standards, and procedures within Saudi banks. They employed a descriptive analysis approach, while the data were collected through a questionnaire survey from 95 members of Shari'ah advisory boards, Shari'ah groups, and Shari'ah governance committees in local Saudi Arabia banks. A regression analysis was performed to estimate relationships between the level of compliance and commitment to Shari'ah governance in Saudi banks as a dependent variable, and the implementation of Shari'ah governance, its dimensions, as well as the availability of implementing procedures of Shari'ah governance as independent variables. The findings confirm the existence of variations between banks at the level of implementing Shari'ah governance principles and standards. It further revealed disparities in the implementation levels of

Shari'ah governance between banks with full-fledged Shari'ah compliance and conventional banks that offer Islamic windows. The results of the regression analysis revealed that the implementation of Shari'ah governance dimensions and the availability of implementing procedures have a statistically positive effect on the level of commitment to Islamic banking and Shari'ah governance.

Bashir & Aglan (2023a) investigated Shari'ah governance in Islamic banks situated in Saudi Arabia based on the perceptions of Islamic finance experts. They revealed that the Saudi Shari'ah governance structure for local financial institutions is still far from that applied and practiced in most Islamic financial institutions in Gulf Cooperation Countries (GCCs) in terms of compulsory implemented standards and requirements. They highlighted some challenges faced by Saudi authorities in implementing the Shari'ah governance structure, while also suggesting some policy changes to improve Shari'ah governance practices in Saudi banks.

Bashir et al., (2022) analyzed the influence of Shari'ah supervisory board (SSB) characteristics upon the financial performance of the banks that follow the Islamic banking system in Saudi Arabia based on features possessed by the SSB. The data considered for the period spans between 2013 and 2022 and focuses on four fully-fledged Islamic banks operating in Saudi Arabia. They used the annual reports of the banks and analyzed it under descriptive statistical analysis. The ordinary least square regression model was applied. They reveal that the independence and experience of the Shari'ah board exert a remarkable influence on the financial performance of the Islamic banks whereas the size of the Shari'ah board has no significant influence.

From the above discussion of the relevant empirical studies, the present paper focuses on assessing the relationship between the dimensions of governance and the level of Shari'ah governance compliance in Saudi's banks. The originality of this paper lies in its analysis of the mediating role of the availability of executive procedures in implementing Sharia'h governance framework in Saudi banks as well as its impact on the relationship between governance principles and the level of Shari'ah compliance.

## Methodology

Using a dataset collected by Bashir & Babiker (2023b), this study performed a comprehensive analysis of survey data collected from 95 respondents who were actively involved in Shari'ah governance practices across 11 banks between March 1 and April 15, 2022. This study sought to offer insights into the effective governance strategies that foster Shari'ah compliance, thereby enriching the scholarly discourse and guiding practical implications for banking institutions operating within Islamic finance paradigms. The structural model to examine the hypothesized relationship between variables was tested using SmartPLS (v.3.2) (Ringle et al., 2015).

The population in this research includes managers, Shari'ah consultants and auditors, and other executive officers involved in Shari'ah governance practices in Saudi banks. This population is estimated around 500. The sample size is 91, which exceeds the minimum requirement suggested by Hair et al. (2017), which states that the minimum sample size should be the number of indicators multiplied by 10. Data collection for the research involved administering questionnaires and gathering documentation on respondents directly in the field. The sample represents 11 banks licensed to operate in Saudi Arabia, including four full-fledged Islamic banks and seven banks that provide Islamic banking services through windows or branches.

### *Questionnaire Content*

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

Dimension 1: Measures the commitment of local banks to the application of Shari'ah governance, consisting of 8 statements.

Dimension 2: Measures the level of Shari'ah governance implementation in local banks, consisting of 26 statements.

Dimension 3: Measures the requirements for the availability of executive procedures to implement Shari'ah governance in local banks, consisting of 7 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, Strongly Disagree). The total number of statements in the questionnaire is 41.

### *Stability*

Tool stability 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 sample or a similar sample from the same population. To measure the stability of the tool, Cronbach's Alpha coefficient ( $\alpha$ ) was used. The results show that the overall stability coefficient was high, with a value of 0.932, according to Cronbach's Alpha coefficient. This indicates that the questionnaire has a high degree of stability and can be relied upon.

## **Research Hypothesis**

The hypotheses proposed to evaluate the relationship of predictors (DT, MAA, OS) on the dependent factor (LC) are as follows:

*H1:* There is a significant effect of disclosure and transparency (DT) on the level of commitments of Shari'ah compliance governance (LC).

*H2:* There is a significant effect of monitoring, auditing, and accountability (MAA) on the level of commitments of Shari'ah compliance governance (LC).

*H3:* There is a significant effect of organisational structure (OS) on the level of commitments of Shari'ah compliance governance (LC).

*H4:* There is a significant effect of responsibility (R) on the level of commitments of Shari'ah compliance governance (LC).

*H5:* A viability of executive procedures (AEP) mediates the relationship between governance dimensions (DT, MAA, OS) and the level of commitments of Shari'ah governance (LC).

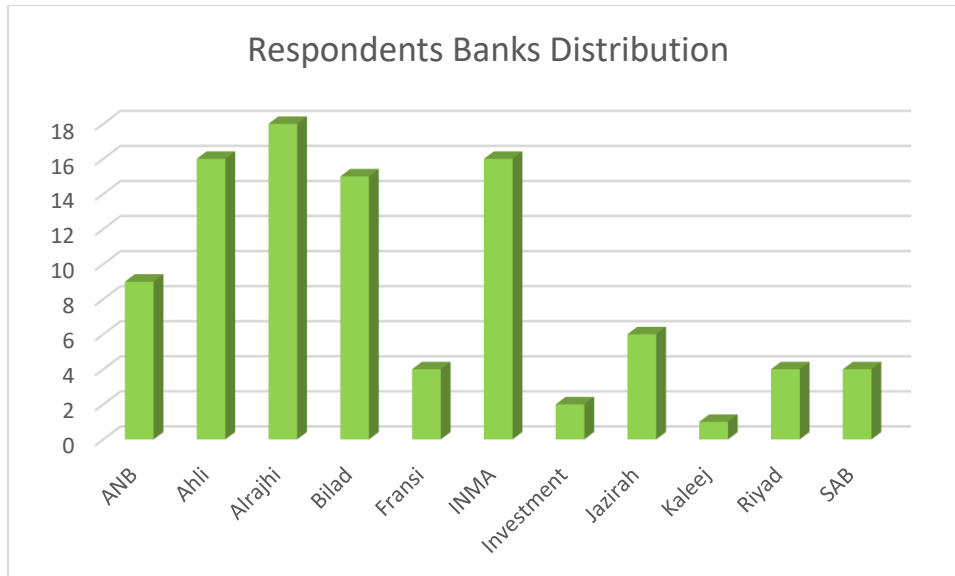
## **Descriptive Analysis**

In this section, we provide a descriptive analysis of the respondent information based on gender, educational qualifications, bank name, and job position. The gender and education distribution of the respondents is summarised in Figure 1. As depicted in the pie chart, the majority of respondents were male, comprising 96% (n=91) of the total sample. Female respondents constituted a smaller proportion, accounting for only 4% (n=4) of the sample.

The majority of respondents held a Bachelor's degree, constituting 41.05% (n=39) of the sample. This was followed by respondents with a Master's degree, accounting for 44.21% (n=42) of the total sample. A smaller proportion of respondents possessed a Doctor of Philosophy (PhD) degree, comprising 13.68% (n=13) of the sample. Only one respondent reported having a diploma qualification, representing a negligible portion of the sample.

The distribution of respondents across different banks is illustrated in the Figure 2 bar chart. As depicted in the bar chart, the respondents were associated with various banks within the study sample. Among these, the highest number of respondents was affiliated with Al Rajhi Bank (18 respondents), followed closely by

Ahli Bank (16 respondents) and INMA Bank (16 respondents). Other notable banks with significant representation include Bilad Bank (15 respondents) and ANB (9 respondents). Conversely, several banks had relatively fewer respondents, such as Kaleej Bank (1 respondent), Investment Bank (2 respondents), Banque Saudi Fransi (SFB) (4 respondents), Riyad Bank (4 respondents), and SAB Bank (4 respondents).



**Figure 1:** Banks wise distribution

The distribution of respondents across different designations is "Audit Sharī'ah," with 24 respondents occupying this position. Following closely behind are "Sharī'ah Consultant" and "Islamic banking Manager," with 20 and 16 respondents, respectively.

#### *Reliability and Validity Analysis*

Table 1 explains the construct reliability and validity; Cronbach's Alpha statistic is used to measure the internal consistency of the items within each construct. Generally, values above 0.7 are considered acceptable, indicating good reliability. All constructs in the study have Cronbach's Alpha values above 0.7, suggesting satisfactory internal consistency. rho\_A is an alternative measure of internal consistency that is less sensitive to the number of items in the construct compared to Cronbach's Alpha. Similarly, values above 0.7 indicate good reliability, and all constructs meet this criterion.

**Table 1:** Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
AEP	0.840	0.843	0.887	0.611
DT	0.781	0.801	0.857	0.600
ICI	0.811	0.815	0.913	0.840
LC	0.884	0.898	0.915	0.684
MAA	0.864	0.872	0.902	0.648
OS	0.847	0.850	0.898	0.687
R	0.592	0.640	0.826	0.705

Composite reliability assesses the reliability of the construct by considering both the variance shared among the indicators and the measurement error. Values above 0.7 are typically considered acceptable, indicating that the construct is reliable. All constructs in the study exhibit composite reliability above 0.7, indicating

good reliability. Average Variance Extracted (AVE) reflects the amount of variance captured by the construct relative to the amount due to measurement error. Values above 0.5 are generally considered acceptable, suggesting that the construct adequately represents its underlying variables. In this study, most constructs have AVE values above 0.5, indicating satisfactory convergent validity. Overall, the results of the construct reliability and validity analysis suggest that the measurement model exhibits good reliability and convergent validity. However, researchers may consider further refinement of the "R" construct to enhance its reliability. These findings provide assurance regarding the robustness of the measurement model for subsequent analyses, such as structural equation modeling.

### *Discriminant Validity*

The Fornell-Larcker criterion is a common method used to assess discriminant validity in structural equation modeling. It examines whether the square root of the average variance extracted (AVE) for each construct is greater than the correlation between that construct and any other construct in the model. Table 2 shows these results.

**Table 2:** Fornell Larcker Criterion

	AEP	DT	ICI	LC	MAA	OS	R
AEP	0.782						
DT	0.666	0.775					
ICI	0.564	0.632	0.917				
LC	0.661	0.631	0.476	0.827			
MAA	0.833	0.591	0.502	0.703	0.805		
OS	0.721	0.587	0.374	0.602	0.767	0.829	
R	0.600	0.590	0.559	0.505	0.524	0.384	0.840

In the Fornell-Larcker criterion, discriminant validity is supported when the square root of the AVE for each construct (diagonal elements) is greater than the correlations between that construct and any other construct (off-diagonal elements) in the table. Based on the provided correlations and AVE values for each construct (e.g., AEP, DT, ICI, etc.), the value along the diagonal represents the square root of the AVE for that construct. The off-diagonal values represent the correlations between constructs. Discriminant validity is confirmed if the square root of the AVE for each construct is greater than the correlation with any other construct. Looking at the table, we can see that the diagonal elements (square root of AVE) for all constructs are greater than the corresponding off-diagonal elements (correlations with other constructs), indicating sufficient discriminant validity among the constructs. Therefore, the results of the Fornell-Larcker criterion support the discriminant validity of the measurement model, suggesting that each construct measures a distinct underlying concept and is not highly correlated with other constructs in the model.

### *Measurement Model*

The measurement model serves as the foundation for assessing the relationships between latent constructs and their observed indicators. It helps validate the measurement of theoretical constructs by examining the reliability and validity of the indicators used to operationalise them. Furthermore, the measurement model aids in identifying and refining the most representative indicators for each construct, ensuring the accuracy and precision of the model's estimates.



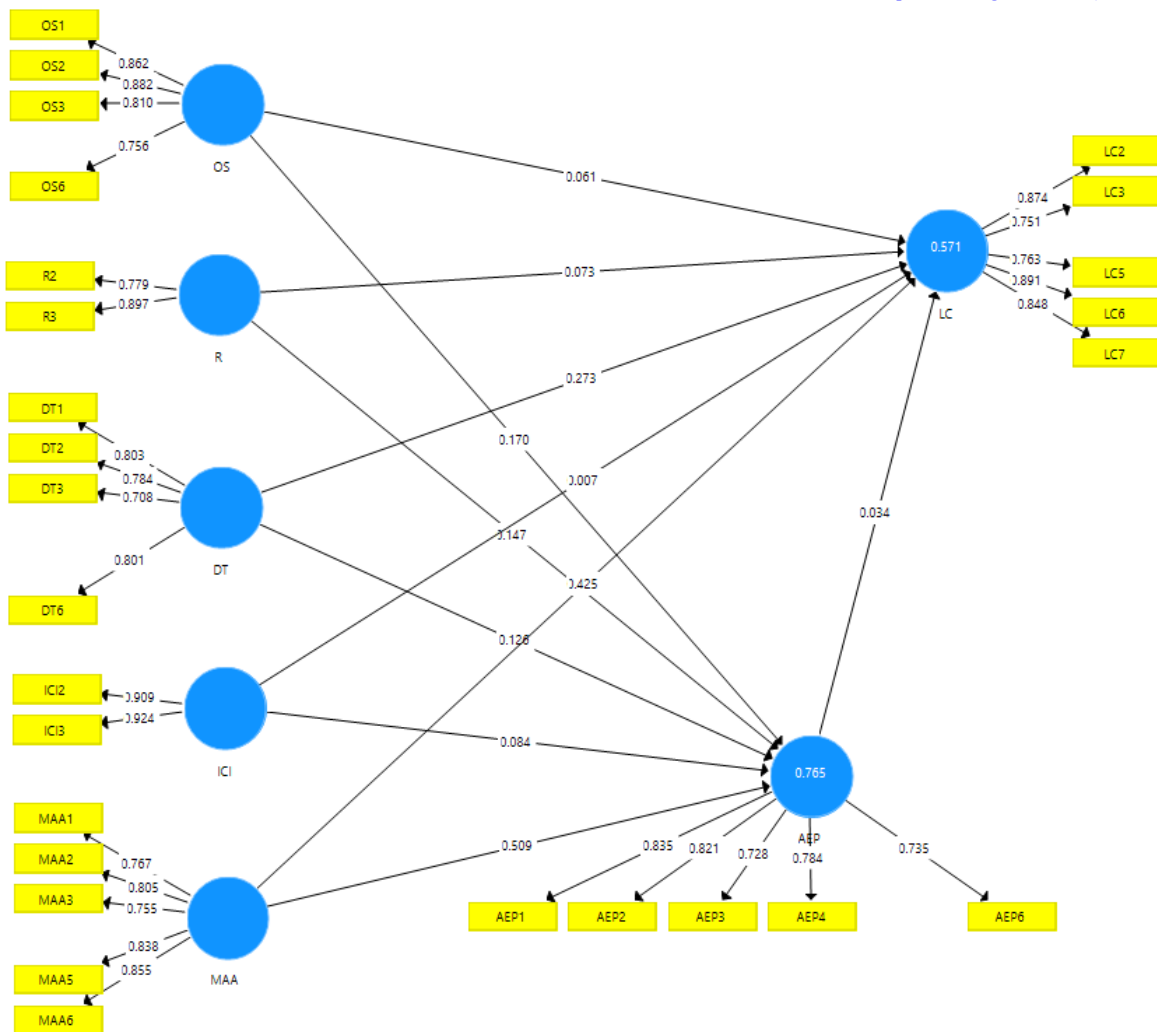


Figure 2: Measurement Model

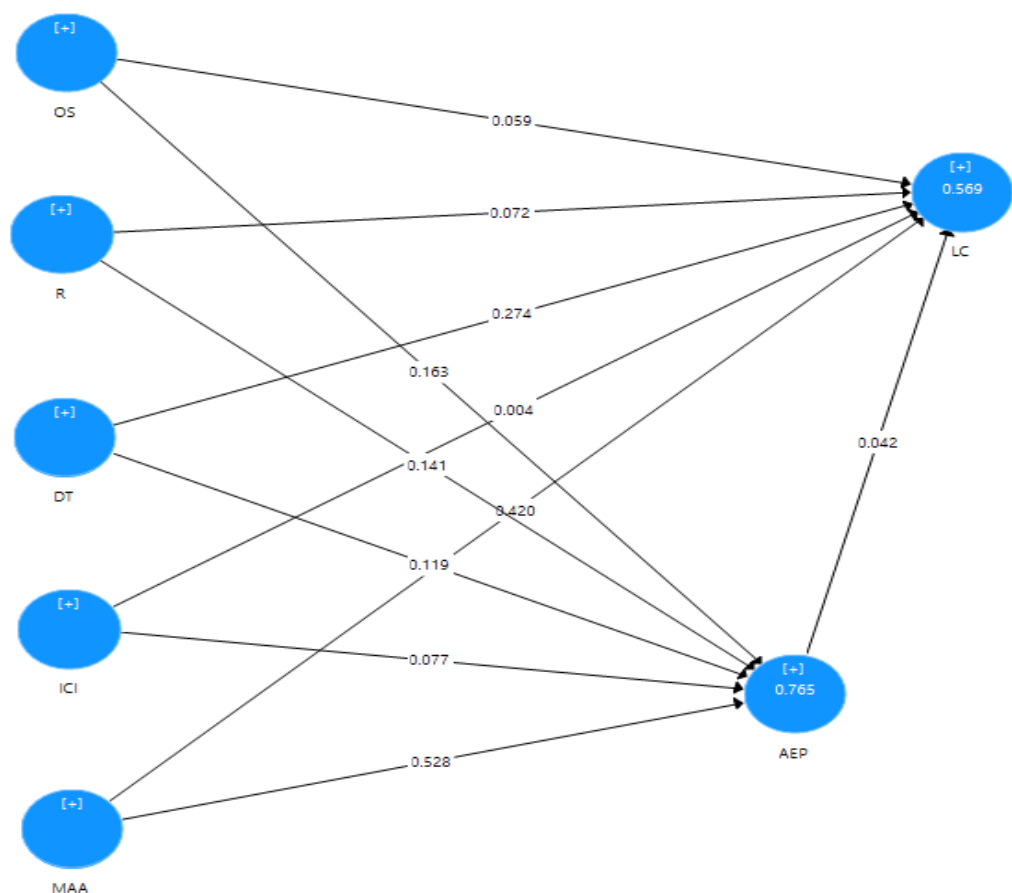
The measurement model, depicted in Figure 2, underwent refinement by removing certain manifest indicators, resulting in satisfactory factor loadings exceeding 0.7 for the remaining indicators. This process aims to enhance the model's precision and ensure that each indicator adequately represents its underlying construct. The fit summary provides insights into the model's goodness-of-fit statistics. Both the saturated and estimated models exhibit comparable values across various fit indices. The standardised root mean square residual (SRMR) remains consistent at 0.090 for both models, indicating a good fit between the observed and model-implied covariance matrices. Additionally, the discrepancy indices (d\_U<sub>LS</sub> and d\_G) and Chi-Square values are identical between the saturated and estimated models, suggesting minimal differences in model fit. Despite these favorable fit indices, the Normed Fit Index (NFI) indicates moderate fit, with values of 0.629 for both models. This discrepancy may stem from the complexity of the model or unaccounted-for variance within the data. However, the root mean square theta (rms Theta) value of 0.173 suggests reasonable model fit. Overall, while the model exhibits satisfactory factor loadings and comparable fit indices to the saturated model, further exploration may be warranted to address any potential sources of model misfit and refine the measurement model for greater precision and accuracy.

*Structural Equation Model (SEM)*

The SEM analysis aimed to investigate the relationships between governance dimensions and Shari'ah compliance in banking institutions. Path coefficients were examined to determine the direct effects of each

governance dimension on Shari'ah compliance, while specific indirect effects and total effects were calculated to assess mediation and overall impact.

The path coefficients given in Figure 3 revealed significant relationships between certain governance dimensions and Shari'ah compliance. Notably, Availability of Executive Procedures (AEP) demonstrated a positive and significant direct effect (0.042) on Shari'ah compliance, indicating that well-established executive procedures contribute to higher levels of compliance. Additionally, Monitoring, Auditing, and Accountability (MAA) showed a strong positive direct effect (0.528) on Shari'ah compliance, suggesting that robust monitoring and accountability mechanisms enhance compliance levels. However, other governance dimensions, such as Disclosure and Transparency (DT), Organisational Structure (OS), and Responsibility (R), exhibited relatively weaker direct effects on Shari'ah compliance, with path coefficients ranging from 0.119 to 0.163.



**Figure 3:** Structural Equation Model

The specific indirect effects shed light on the mediation pathways between governance dimensions and Shari'ah compliance. For instance, the indirect effect of "DT -> AEP -> LC" (0.005) suggests that Disclosure and Transparency indirectly influence Shari'ah compliance through the mediating factor of Availability of Executive Procedures. Similarly, effects such as "ICI -> AEP -> LC" (0.003), "MAA -> AEP -> LC" (0.022), "OS -> AEP -> LC" (0.007) and "R -> AEP -> LC" (0.006) also demonstrate similar mediation pathways.

The total effects of the constructs also observed that represent the combined direct and indirect effects between constructs. In this analysis, Total Effects confirmed the findings observed in Path Coefficients, with AEP and MAA exerting the most substantial influence on Shari'ah compliance. The model's goodness-



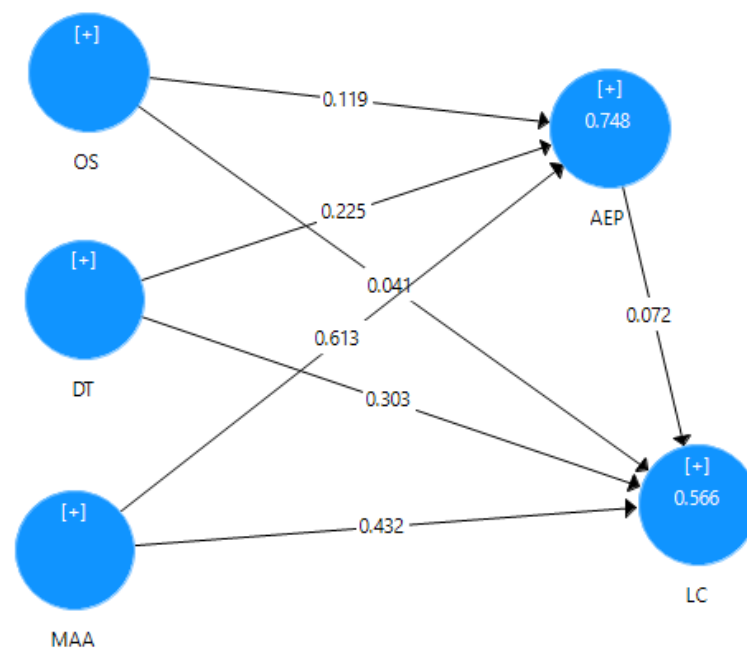
of-fit was assessed using various quality criteria. R Square and R Square Adjusted indicated that the model explains a significant proportion of variance in Shari'ah compliance and the governance dimensions. Additionally, f Square values provided insights into the effect size of each construct on Shari'ah compliance.

The fit summary provided various fit indices, including SRMR, d\_ULS, d\_G, Chi-Square, and NFI. While the fit indices approached ideal values, the Normed Fit Index (NFI) indicated moderate fit, suggesting potential areas for further refinement. Overall, the SEM results suggest that Availability of Executive Procedures and Monitoring, Auditing, and Accountability play pivotal roles in fostering Shari'ah compliance within banking institutions. However, other governance dimensions, such as Disclosure and Transparency, Organisational Structure, and Responsibility, also contribute to varying degrees. These findings provide valuable insights for banking institutions seeking to enhance their compliance with Shari'ah principles and strengthen their governance frameworks.

#### *Revised Structural Equation Model (SEM)*

The revised Structural Equation Model (SEM) was developed to refine the relationships between governance dimensions and Shari'ah compliance in banking institutions. Path coefficients, total effects, and fit indices were analysed to evaluate the impact of the revisions on the model's explanatory power and goodness-of-fit.

In the revised model, the path coefficients remained consistent with the previous model for most governance dimensions. Availability of Executive Procedures (AEP) continued to demonstrate a positive and significant direct effect (0.071) on Shari'ah compliance, albeit with a slight increase compared to the previous model (0.042). Similarly, Disclosure and Transparency (DT) maintained a positive direct effect on Shari'ah compliance (0.303), reflecting its importance in fostering compliance within banking institutions. However, Organisational Structure (OS) exhibited a minor decrease in its direct effect on Shari'ah compliance (0.041), compared to the previous model (0.163). Total effects in the revised model confirmed the findings observed in the path coefficients. Availability of Executive Procedures (AEP) and Disclosure and Transparency (DT) continued to exert the most substantial influence on Shari'ah compliance, with total effects of 0.071 and 0.311, respectively.



**Figure 4:** Revised Structural Equation Model

Fit indices in the revised model remained consistent with the previous model, indicating a similar level of model fit. The standardised root mean square residual (SRMR), discrepancy indices ( $d_{ULS}$  and  $d_G$ ), and Chi-Square values did not show significant changes. Additionally, the Normed Fit Index (NFI) maintained its moderate fit, suggesting that the revisions did not substantially impact the overall model fit.

The comparison between the previous SEM model and the revised model highlights several notable changes. While the path coefficients for most governance dimensions remained consistent, the slight increase in the path coefficient for Availability of Executive Procedures (AEP) suggests a stronger direct effect on Shari'ah compliance in the revised model. Conversely, Organisational Structure (OS) exhibited a minor decrease in its direct effect, indicating a less pronounced influence on Shari'ah compliance. Overall, the revisions in the SEM model contributed to a nuanced understanding of the relationships between governance dimensions and Shari'ah compliance, providing valuable insights for banking institutions striving to enhance their compliance frameworks.

#### *Mediating Effects and Total Effects*

The objective of conducting an indirect effect analysis is to determine the degree to which Availability of Executive Procedures (AEP) serves as a mediator, influencing the connection between governance dimensions (DT, MAA, OS) and the level of commitments of Shari'ah governance (LC). Analogous to the direct effect analysis, a t-count value (T-statistic) of  $\geq 1.96$  or a p-value less than the predefined error rate ( $\alpha$ ) of 5% is necessary to validate the research hypothesis (H5). Moreover, the indirect effect analysis offers insights into the mediation process. If both the direct impact of the independent variable on the dependent variable and the indirect impact through the mediating variable are substantial, it suggests partial or complementary mediation. Conversely, if the direct impact of the independent variable on the dependent variable is insignificant, but the indirect effect through the mediating variable is significant, this suggests full or perfect mediation.

Mediation analysis was performed to assess the mediating role of AEP the relationship between DT, MAA, and OS respectively and LC. Table 3 shows the results of the mediating indirect effects. The results revealed that AEP played an insignificant moderating role in the relationship between DT, MAA, OS and LC.

**Table 3:** Mediating Indirect Effects

	Mean	St. Deviation	t-statistics	P values
DT -> AEP -> LC	0.023	0.043	0.378	0.705
MAA -> AEP -> LC	0.051	0.105	0.420	0.675
OS -> AEP -> LC	0.009	0.025	0.345	0.730

**Table 4:** Total Effects

	Original sample	Mean	STDEV	T statistics	P values
AEP -> LC	0.070	0.076	0.157	0.445	0.656
DT -> AEP	0.230	0.240	0.075	3.063	0.002
DT -> LC	0.317	0.332	0.101	3.145	0.002
MAA -> AEP	0.605	0.594	0.085	7.080	0.000
MAA -> LC	0.475	0.455	0.138	3.436	0.001
OS -> AEP	0.124	0.130	0.096	1.302	0.194
OS -> LC	0.053	0.066	0.128	0.416	0.677

The results presented in Tables 3 and 4 illustrate a scenario where the indirect effect is found to be insignificant, while the total effect is significant, suggesting the absence of mediation. There are several reasons that could explain the insignificance of the indirect effects despite the significance of other pathways.

## Discussion

The findings of this research reveal that both DT and MAA have a direct influence on the level of commitment to Shari'ah compliance governance, but OS does not have a significant influence. DT is crucial in fostering awareness and confidence regarding financial and operational procedures that adhere to Shari'ah principles. Institutions can exhibit their dedication to conducting business morally and in line with Islamic principles by providing pertinent information in an understandable and open manner. Because of this transparency, all stakeholders are able to comprehend the institution's risk management practices, investment decisions, and adherence to Shari'ah law in every facet of its operations. Furthermore, MAA is particularly advantageous since it uses a robust monitoring and control mechanism to guarantee that enterprises adhere to Shari'ah standards. Establishing stringent responsibility for the application of Shari'ah principles, closely monitoring operational activities, and performing high-quality compliance checks can all help institutions lower the likelihood of infractions and increase their commitment to Shari'ah compliance. Stakeholders can feel more confident knowing that the organisation takes Shari'ah governance problems seriously and operates responsibly. Consequently, by offering a robust framework and effective monitoring methods, DT and MAA not only establish a transparent and supervised environment, but also reinforce the governance commitment of Shari'ah compliance. Both provide a strong basis for businesses to follow Shari'ah principles in their operations, uphold stakeholder confidence, and guarantee long-term operational integrity.

Additionally, the results of this research demonstrated that OS had no impact on LC. The primary goal of the organisational structure is to ensure effective operations and a clear division of tasks, rather than to regulate compliance with Shari'ah principles. As OS is more related to the hierarchy, duties, and responsibilities of the institution, it may not directly influence the level of commitment to Shari'ah compliance governance. Adhering to Shari'ah principles involves deeper considerations of Islamic morality, ethics, and law. It calls for a strong commitment to upholding these values in every facet of the institution's activities as well as a thorough comprehension of Islamic teachings. Thus, factors like organisational culture, policies, and management practices—rather than the organisational structure itself—are probably going to have a bigger impact on how committed a firm is to Shari'ah compliance governance.

Finally, the findings of this study also show that AEP does not mediate the influence of governance dimensions (DT, MAA and OS) on LC. The essential role that AEP plays in mediating the relationship between governance dimensions and Shari'ah compliance governance commitment can also be influenced by the quality of its execution. AEP may have less of an impact on mitigating the influence of governance features on the commitment to Shari'ah compliance if it is only employed formally or is not routinely followed in day-to-day practice. As such, it is critical to take into account both the accessibility of AEP and the quality of its execution. AEP will not be effective in guaranteeing Shari'ah compliance, for instance, if an organisation has explicit executive processes pertaining to Shari'ah compliance but staff members do not comprehend or implement these procedures in their day-to-day work. AEP will also not be very effective in mitigating the impact of governance dimensions on Shari'ah compliance commitments if the procedures are just technically followed to satisfy requirements without considering the underlying Shari'ah principles.

## Conclusion and Recommendations

This study examined the intricate relationship between governance dimensions and Shari'ah compliance in the banking sector, distinguishing between fully Islamic banks and conventional banks with Islamic windows. Through descriptive analysis, reliability and validity assessments, and structural equation modeling (SEM), this research offers valuable insights into the mechanisms shaping compliance with Shari'ah principles within banking institutions.

The findings underscore the significance of Availability of Executive Procedures (AEP) and Disclosure and Transparency (DT) in fostering Shari'ah compliance, with both constructs exhibiting substantial direct effects on compliance levels. Additionally, Monitoring, Auditing, and Accountability (MAA) emerged as a

crucial determinant of compliance, highlighting the importance of robust oversight mechanisms in ensuring adherence to Shari'ah principles.

Moreover, the revised SEM model elucidates the nuanced relationships between governance dimensions and compliance, with slight variations observed in the direct effects of certain constructs. While Organisational Structure (OS) exhibited a minor decrease in its direct effect on compliance, the overall model fit remained robust, underscoring the reliability of the findings.

The absent of indirect impact of executive procedures indicates the urgent need to make the Shari'ah governance framework mandatory rather than voluntary for all Saudi banks that provide Shariah-compliant banking services. On the other hand, it refers to the ongoing work to develop Shari'ah governance framework and its related operational and executive procedures to keep pace with developments in the field of governance practices and regulatory frameworks.

Overall, this study contributes to the growing body of literature on governance and compliance within Islamic finance, providing actionable insights for banking institutions, regulatory authorities, and policymakers. By emphasising the pivotal role of governance mechanisms in shaping compliance with Shari'ah principles, this research informs strategic decision-making and policy formulation aimed at fostering ethical and sustainable financial practices as well as the need to develop Shari'ah supervisory committees at the level of banks and a central Shari'ah board at the level of the Saudi Central Bank. It is necessary for Saudi regulator authority to benefit from the experiences of Shari'ah supervision in other countries as an important element in the processes and structures of Sharia governance in Islamic banks.

Moving forward, future research could explore additional factors influencing Shari'ah compliance, such as cultural dynamics, regulatory frameworks, and market conditions. Additionally, longitudinal studies could provide valuable insights into the evolving nature of governance practices and their impact on compliance over time. Ultimately, a holistic understanding of governance dimensions is essential for advancing the principles of Islamic finance and ensuring the integrity and resilience of banking systems worldwide.

### Funding Statement

This work was supported and funded by the Deanship of Scientific Research at Imam Mohammad Ibn Saud Islamic University (IMSIU) (grant number IMSIU-RPP2023047).

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