

# **Evaluating the Factors Facilitating or Hindering the Involvement of Shariah Committees in Risk Management Practices in Islamic Banks in Kingdom of Saudi Arabia (KSA).**

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## **Abstract**

**Purpose:** This study aims to add to the existing literature on Islamic finance by explaining the ways in which Shariah committees can improve and strengthen their influence over Islamic banks' risk management practises. This research attempts to break down the complexities of Saudi Arabia's risk management and identify the crucial role that Shari'ah committees play in ensuring compliance with Shariah law.

**Design of study:** A qualitative research method was adopted conducting semi-structured interviews. Purposive sampling was used to choose 34 individuals. The data was analyzed using thematic analysis, with the use of NVivo software, which made it easier to identify patterns in the Arabic answers. Following the ethical norms established by RMIT University, obtaining participants' explicit consent, and guaranteeing anonymity are all of the top priority.

**Findings:** Several factors determine Saudi Islamic Bank Shariah Committee risk management. An effective regulatory framework, Shariah committee-bank leadership communication, and learning of Islamic financial ideas can aid in Shariah compliance. However, interpreting complex financial services within Shariah, inconsistencies between Islamic principles and standard risk management methodologies, and a shortage of competent Shariah scholars with banking and risk management knowledge may slow development. Research is needed to understand Saudi procedures.

**Oraginility:** The current research comprehensively documented potential factors that facilitate or resist the involvement of Shariah Committees in practices of risk management in Saudi Arabia's Islamic banks.

**Keywords:** Risk Management Practices, Shariah committee, Cooperate governance, Islamic Financial Institutions (IFI) and Kingdom of Saudi Arabia (KSA).

## 1. Introduction

Saudi Arabian Islamic banks have been supervised by an independent committee called the Supervisory Board, often known as the Shariah Committee (SC) (Masruki *et al.*, 2020). This committee can either promote or discourage the application of risk management measures. So, all three names—Shariah Committee, Shariah Group, and Shariah Supervision Board—are officially associated with the same cohort of renowned experts on Shariah (Alam *et al.*, 2020). The different names for these things vary from country to country. A Shariah board, on the other hand, is defined by the American Association of Islamic Financial Institutions (AAOIFI) in 2005 as "an external body assigned with the duty of guiding, reviewing, and monitoring the activities of Islamic financial institutions (IFIs) for complying with Shariah and issuing decisions of law about Islamic banking and economics." The Shariah committee or Shariah board is an important party that plays an important part of establishing the validity of any Islamic bank. As stated Cadbury, (2002), Islamic banking establishments are required to establish a committee on Shariah in order to guarantee that their operations are in accordance with the guidelines of Islamic economic law. This is for the purpose of ensuring that the corporate governance structure is functioning properly. In its decision No. 177 (19/3) on the subject, the International Committee of the Fiqh Academy described the Shariah committee's function in overseeing Islamic banks as follows: the committee will consist of at least three experts in Islamic law, particularly civil law (fiqh al-mu'amalat), chosen from the individuals who are competent and well-informed in light of practical considerations; its purpose will be to make statements to the public and revisions as necessary; it will confirm and assure that all operations carried out by Islamic financial institutions adhere to Shariah guidelines; and finally, it will make public choices, with the Islamic financial institutions' assistance. Supervisory independence, ownership by institutions, and the quality of leadership as a whole were among the "conventional" characteristics that were taken into account. It is the responsibility of the Shariah Committee to advise Islamic financial institutions thoroughly on how to comply with Shari'ah law. According to Bukair and Rahman, (2015), the Supreme Court makes sure that all transactions follow shari'ah. According to Garas, (2012), SC supervision has a significant impact on performance and helps resolve disagreements and obstacles in the workplace. An IFI's organization, efficacy, and final product are all open to conflicts of interest (Graiss and Pellegrini, 2006).

The Shariah Supervisory Board is an integral part of Islamic bank governance procedures and is responsible for ensuring that the bank follows Islamic law. According to (Mollah and Zaman, 2015), one important aspect of Islamic banks is the presence of Shariah Supervisory Boards (SSBs) that guarantee that they follow Shariah rules. The SSB is in charge of monitoring and confirming all banking and financial transactions in order to limit management's ability to take advantage of situations (Abdesalam *et al.*, 2016). Thus, an additional layer is required for Shariah corporate governance in order to guarantee that the IBs comply with Shariah law. As an extra and essential part of their CG process, Islamic financial institutions (IFIs) do in fact form Shariah Supervisory Boards (Nomran and Haron, 2019). Research has shown that Islamic banks perform better after SSBs are in place and the role of supervisory is in place (Nomran *et al.*, 2018). In addition, International Financial Institutions function is positively affected by factors such as size, design, credentials, education, and awareness of Islamic jurisprudence, as well as modern and Islamic financial expertise (Almutairi and Quttainah, 2017). In a similar vein, SSB members that are exceptionally qualified assist in improving earnings and achievements (Nomran *et al.*, 2017).

An essential component of ethical banking practices is risk management. In short, banks will be able to stay in business and succeed even if they follow good risk management concepts and put those concepts into practice. The KSA established risk standards for financial institutions after realizing the importance of a thorough risk-management structure and good management of risk. Among every economic systems, risk management is of the highest significance in the financial services industry (Abu Hussain and Al-Ajmi, 2012). This is due to the fact that individual banks' deficits are merely the tip of the iceberg when it comes to the consequences of a poor risk management system. Alternatively, enormous losses in the banking sector have the potential to bring down specific financial institutions or the entire banking system, which would have far-reaching consequences for the economy as a whole. The assets of a company and earnings are protected by efficient risk management, which diminishes the probability of loss and reduces the impact of loss in the event that it does take place, thus assuring an immediate process of recovery. More specifically, risk management is able to be characterized as the avoiding of risky behaviors or, in

situations when the threat can't be prevented, the transfer of the responsibility to a third party (Coffin, 2009).

A bank's risk management strategy is dynamic and subject to change based on factors both inside and outside the bank (Abu Hussain and Al-Ajmi, 2012). Risk management is especially challenging for IBs due to the fact that they are unable to simply copy the tried-and-true methods used by CBs. Nevertheless, according to Kayed and Hassan, (2011), both international banks and commercial banks start with recognizing risks, mitigation, and measures to minimize exposure to risk with the goal of preserving profitability. This is the same approach that both types of banks adhere to when managing risk. However, IBs are obligated to guarantee that all tools utilised in the framework development are in accordance with Shariah criteria, unlike CBs. Risk identification in the setting of IBs consists of two steps: One measure to minimize utilized risk to an acceptable level is negative Shariah assessment, which does away with transactions according to riba, gharar, and maysir. The second one is positive screening, and it's all about doing the right thing and being held accountable. The first round of screening is carried out by the Shariah board of the bank for all products supplied by an Islamic bank.

In this context, the aim of the current research is to explore ways to improve the involvement of Shariah committees in Islamic banks' approaches to risk management as well as to identify factors that promote or hinder the involvement of Shariah committees in risk management practices in IBs.

## **2. Literature Review**

### ***2.1 Risk of Management, practices and regulation in Islamic Banking: An Overview***

Sharia law governs all aspects of an Islamic bank, not just its operations but also its products, tools, management, and practices. Researchers propose in this study that the Sharia committee should be responsible for reducing ethical risks in Islamic banks and for supervising risk-taking. Previous research provides support for this idea. Public trust in Islamic finance decreases and Islamic banks are put in tremendous danger when they do not comply with Sharia, according to Hamza, (2013). According to Beck *et al.*, (2013), Islamic banks are known for their superior size, stability, quality of assets, and intermediation ratio than conventional banks. The main functions of the

Sharia committee, according to Safieddine, (2009), are to advise the boards of members, establish and monitor Sharia-related regulations, and provide certainty regarding Sharia compliance through the issuance of judgements (fatwa). Some prior research has found that Islamic banks are safer and more reliable than conventional banks due to the Sharia committee's responsibilities (Hasan and Dridi, 2011; El-Hawary *et al.*, 2007).

According to Waring and Glendon, (1998), as mentioned in Kalapodas and Thomson, (2006), the goal of implementing risk management practices is to eliminate, minimize, and control risk, as well as to maximise the advantages and minimize the risks connected with risk-taking. It would appear that Shariah boards do not inherently discourage risk-taking, according to research by Hassan and Mollah, (2014). On the other hand, concerns with financial information and corporate governance are the driving forces behind risk-taking in IBs.

## **2.2. Role of Sharia supervisory boards**

Additionally, (Elamer *et al.*, 2020) discovered that Islamic banks in the KSA might enhance their openness of operational risk through Sharia supervisory boards. This discovery highlights the significance of Sharia supervisory boards in managing operational risk. Also, management cannot maximize the bank's worth by taking unnecessary risks in search of short-term profits, as this would be considered in violation of Sharia law. According to (AlAbbad *et al.*, 2019), the asset-return and bankruptcy risks of Islamic banks are positively and considerably affected by the extent of the Sharia supervision board as well as busy directors of board. Because of this, it is clear that the competency of the Sharia oversight board impacts bank risk when it comes to examining Sharia compliance.

Mollah and Zaman, (2015) looked into the effect of Shariah supervision, which includes the advising or supervisory function of SCs, on performance in with respect to the committee of shariah. When the Committee of Shariah is in a supervisory capacity, the study indicated that SC had a beneficial impact on accounting-based performance. Islamic investment companies may reduce their overall and negative risk exposure by improving their governance, according to (Meskovic *et al.*, 2020). All Islamic banking services and products must be lawful and in accordance with Shariah law. In order to legitimize the bank as Islamic, a Shariah committee's principal

objective is to guarantee adherence to the principles and ideals of the International Monetary.

(Grassa and Matoussi, 2014) Grassa claims that the governance of shari'ah system is much improved by inclusion of SC. The Islamic banks, according to (Nawaz *et al.*, 2023), have a better chance of survival and profitability when their intellectual property is more efficiently used. The research continues to reveal that the Islamic banking industry's increased path might not be entirely explained by Shariah governance alone. Many scholars have joined in on numerous shari'ah committee topics. Considerations such as these include the Shari'ah committee members, their qualifications, frequency and quality of sessions, the presence or absence of gender variation, the depth of committee knowledge, and so on (Mollah and Zaman, 2015; Safiullah and Shamsuddin, 2018). More frequent committee meetings provide more chances to connect, talk, and find solutions to problems. However, according to Malik and Makhdoom, (2016), there is an inverse relationship among the number of sessions organised and the success of the business. A study conducted by Mollah and Zaman, (2015) examined the effects of shari'ah supervision and found that when the committee is in charge of overseeing operations, there is a positive correlation between the shariah committee and success.

### **2.3. Factors that mitigate market risk associated with s in Islamic Banks of KSA**

According to Reyad *et al.*, (2022), Islamic banks can mitigate market risks by implementing strong governance practices, providing adequate training, continually tracking market price changes, and making prompt choices. An efficient Shariah board, in accordance with agency theory, may reduce conflicts of interest and the information gap between stakeholders and the management by offering helpful unbiased oversight of activities and yields that comply with Shariah. The efficient implementation of Shariah regulations depends on strong leadership from the Shariah supervision section and Shariah committee. In terms of risk mitigation, the supervision of the Shariah committee is of greatest significance. To put it another way, the only responsibilities the Shariah committee are providing their judgments and issuing fatwas, which are while the Shariah department must be given the opportunity to communicate effectively. In line with this viewpoint, Shariah committee's primary activities and responsibilities involve the creation of Shariah-related regulations and

the monitoring of conformity with those rules. The Shariah committee is responsible for ensuring that Islamic banks are safer and less hazardous as a result of these responsibilities (Nguyen, 2021).

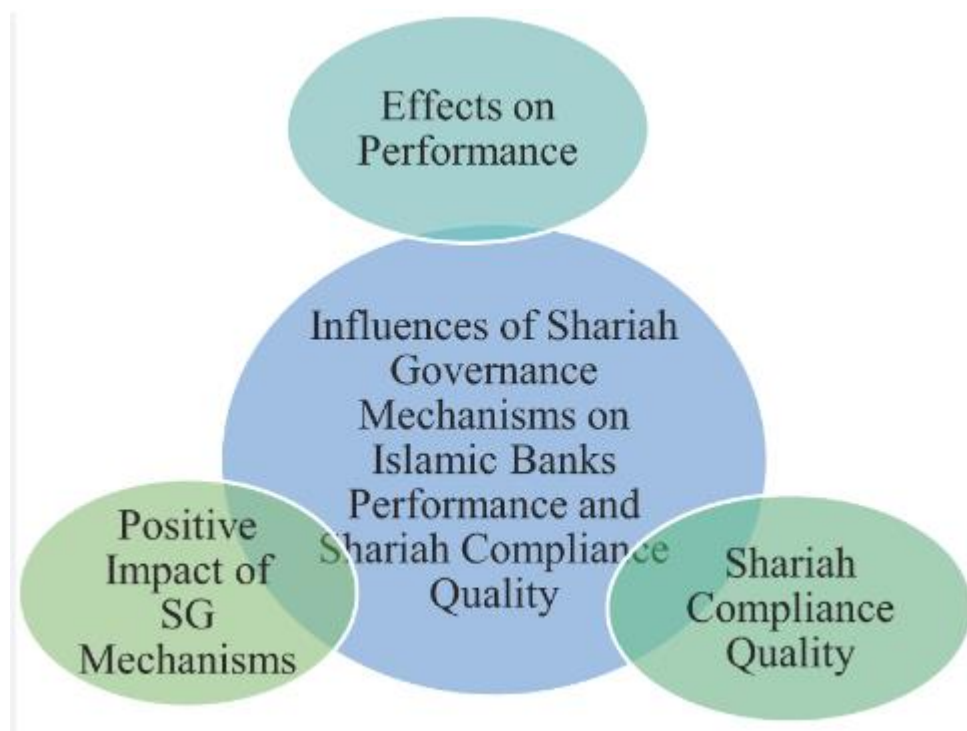
#### ***2.4. Shariah committee's internal risk-hedging strategies***

After conducting research, Safiullah and Shamsuddin, (2018) discovered that participants of the Shariah committee who possess advanced educational backgrounds are better able to accurately evaluate the risk associated with banking in line with shariah and subsequently offer suggestions to develop internal strategies for risk management. Consequently, shariah government will be beneficial in terms of controlling market risks; nevertheless, the committee of shariah ought to have a high level of expertise in traditional and Islamic finance. This is because market hazards comprise benchmark hazards, interest the risk of rate recurrence (income risk rate), product risk of price, and hazard associated with currencies. It is imperative to comprehend these terminologies, which have an exceedingly technical nature. It is the responsibility of the Board of Shariah to determine whether it's appropriate for a Shariah perspective as governing system of Shariah or the banking system fails to specify either it is permitted or not. In light of this, in addition to having knowledge of Shariah, they are required to have the commercial and financial skills necessary to effectively carry out their principal position in the financial institution. The Shariah committee's reliance on revenue and extension requirements set by Islamic financing businesses, as stated by Abidin et al. (2020), puts its autonomy in danger. Developing a Shariah committee with complete independence is essential to guaranteeing the

reliability of maintaining Shariah criteria and fostering confidence among investors in Islamic Financial Institutions (IFIs).

**Figure 1.** The effect of Islamic banks results on the governance of shariah (Alam *et al.*, 2022).

### 3. Research Methodology



#### 3.1. Qualitative Approach

The characteristics that have a favorable or adverse effect on the involvement of Shariah boards in the management practices of Islamic banks of Saudi Arabia have been assessed via the use of a qualitative methodology. The qualitative information centered on the behaviors and views of the 34 individuals, with an emphasis on their freely offered perspectives. This study used interviews that are semi-structured, a qualitative strategy for primary data collection, to accomplish its aims along with accounting for the study's philosophical perspective.

#### 3.2 Sampling and Interview Process

This research aimed to examine the impact of the Shariah governance system on risk management in Islamic banks based in Saudi Arabia. 34 key individuals were sampled



and interviewed. Each bank was expected to send a total of 10 interviewees. This were included two members of the SC, two workers from the Shariah department, and six additional bank workers, such as supervisors and risk management employees. Customers of the following financial institutions who volunteered to take part in the survey were subsequently interviewed face-to-face. Due to the COVID-19 pandemic, certain interviews had to be conducted online using tools like Skype, Zoom, and phone conversations, while most were done in person. Participants were given a clear explanation of the aim of the interview, and their consent was asked to record the interview in order to get correct transcriptions for later analysis. The participants were advised that their recordings were to be used only for the study, in accordance with RMIT's ethical rules, and that they would be disposed of after five years, with assurances of confidentiality. The use of open-ended questions instead of video recordings was chosen by a small number of participants. Since both the interviewees and the participants spoke Arabic as their first language, it was the language of choice for the interviews. The authenticity of the questions and answers was ensured through translations.

### **3.3. Data Analysis**

The data was analyzed using thematic analysis, a well-known method for qualitative data analysis. After that, any patterns or differences were discovered. The method's deep and disorganized data investigation is in line with the depth of qualitative research, which is known for its richness. An easy way to organize large interview datasets was provided by the NVivo program, which aided the study. Step one was getting to know the data; step two was developing early codes; step three was looking for themes; and step four was reviewing and finalizing the themes.

### **3.4. Ethical Considerations**

The research was approved to run from July 15, 2018, to July 15, 2022, in accordance with the University Study Governance Framework, and the study followed all ethical standards. RMIT University's ethical guidelines informed the decision to use both in-person and online interviewing. Understanding that their contribution was entirely intended in addition to that they might extract at any point prior to the deadline, respondents (including Shari'ah Committee members and IB experts) gave their written approval. For the purpose of communication, participants' contact information was exchanged. In accordance with RMIT's ethical standards, the researcher

safeguarded recordings of interviews for five years apart from raw and processed information to ensure their confidentiality.

## **4. Results**

### **4.1 Factors Affecting Shariah Committee Involvement in the Management of Risks**

The participants in this theme talk about those factors that affect the effectiveness of the Shariah committee. Based on the views of the participants, This theme has several sub-themes, which are discussed below.

#### **4.1.1 Access and Availability**

The findings showed that the Shariah Committee's independence is critical for its effectiveness in Islamic banking. Access and Availability to necessary documents and academic qualifications of committee members is essential for their ability to understand complex issues in Islamic finance. The Committee's independence, expertise, and qualifications are essential for maintaining Shariah compliance and minimizing risks in Islamic banking operations.

*".....Access and Availability for needed documents. Main factor that the committee needs it because the role of the committee is based on the access to all information in the bank..." (P16)*

The findings indicate that access to documents is a critical aspect that significantly influences the efficacy of the Committee. Participants emphasised the importance of free access to bank documents, allowing the Shariah committee to fulfil its role effectively. However, it is noted that while this factor can have positive effects, it can also have adverse consequences in certain cases.

*".....That is also an undisputed crucial and impactful element. Free access to documents could have a positive impact, but in some cases, it could have quite the opposite effect....." (P24)*

Furthermore, participants expressed concern about a lack of qualified Shariah scholars in the field of Islamic banking which limits pool of accessible experts for committee membership. Participants indicated that this scarcity limits the Committee's ability to stay completely informed about the Bank's operations, resulting in difficulty and contradictions in issuing fatwas (legal opinions). Overall, participants recognise

the critical significance of document access in the Committee's success, but they also note the existing obstacles and issues related to this component.

*".....A key factor, but unfortunately, the opposite is true in the KSA as there is no such pool and Islamic banks currently need more qualified Shariah scholars....."*  
(P14)

#### **4.1.2 Governance and Structure**

The finding conclude that, the Shariah Committee has difficulty carrying out its mandate due to a lack of procedures, guidelines, and backing from Saudi Arabian bank monitors and regulators, Despite recent Shariah governance laws, the Committee does not participate in the Board of Governors. To achieve Shariah complying effectively in banks, Committee needs goveranance support and independent structure.

*".....As I mentioned earlier, independence structure is an essential element. Support of governance means that the Shariah Committee feels that it is a supported oversight body and has the authority. I think that the Shariah Committee, in the beginning, did not play its role effectively. It played its role in approving a new product, but as a supervisory body has the authority in the bank, no, there is currently a bit of improvement, but not with the expected of them. This may be due to the lack of systems and regulations that help them in this, even after the issuance of the new Shariah governance regulations, because there needs a kind of additions and clarifications. Another element is the presence of clear and strong rules and regulations, which is very important..."* (P5).

The findings emphasizes the significance of the Shariah committee in Islamic banking, stating that its role is crucial in ensuring Shariah compliance and governance, identifying noncompliance, and managing associated risks. It underscores the Committee's vital role in risk management.

*"....Yes, it is an important factor, and Islamic banking cannot work according to Shariah laws without the role of a Committee. The Shariah committee is the first and main factor of Shariah governance system..."* (P21)

As previously stated, the analysis emphasises the significance of collaboration between the Bank's management and the Shariah committee. They reported that

organisational structure is an important factor that considerably impacts the Committee's effectiveness. Participants underlined the importance of such collaboration for proper monitoring, decision-making, and Shariah compliance within the Bank. The presence of cooperation ensures a favourable impact and makes the Committee valuable in carrying out its responsibilities. Lack of cooperation, on the other side, might have a negative impact and makes the Committee ineffective.

*".....Without cooperation in any field, no business can succeed. Cooperation is an important and much-needed factor in a bank as an Islamic one....." (P16)*

Participants also talked about the importance of the Committee's independence and its role in overseeing the Bank's activities from a Shariah standpoint. They also underline the need for the Committee's presence and participation of the board of directors of the Bank in order to improve its effectiveness and maintain adequate Governance. Overall, participants emphasise the necessity of collaboration, monitoring, and the Committee's role in ensuring Shariah compliance and contributing to an Islamic bank's success.

*".....Yes, several institutional factors could affect the role of the Shariah committee in a bank. Firstly, the structure of the Bank itself may impact the Committee's effectiveness. For example, a bank that has a centralised decision-making structure may limit the autonomy of the Committee in making recommendations....." (P20)*

#### **4.1.3 Reputation and Publications**

The findings show the shariah committee members related positions, their reputations and role that may be good or bad.

*".....Yes, it has a role, for example. The reputation of the members is important and has a role, and the opposite may happen with the exit of some customers from the bank if it is found among the members who have a bad reputation in following up the Shariah commitment..."" (P5)*

The view of Participant 5 indicates about publications of the members of the Committee (especially on the topic of Islamic finance).

*....."Yes, it has a role, especially if the member's publications about Shariah governance....." (P5)"*

The findings also showed that the role of the Shariah committee is crucial role in Islamic banks' risk management procedures, reputation ensuring compliance with Shariah laws and safeguarding interests of bank and its clients. The purpose of the Committee is to maintain legal compliance best practices in risk control because of the complex environment of financial transactions in Islamic banking. The Committee and risk management at the bank division collaborate closely, recognizing, evaluating, and ranking potential risks while ensuring Shariah compliance.

*"...There are many types of risks (financial, operational, credit, reputation, classifications that help divide, distribute and manage risks), for example, financial and non-financial risks. There is a management of the Shariah group linked to the Shariah committee in determining the activities and operations in which this type of risk may occur if there is anything to be reported and the issue is resolved appropriately..."*  
(17)

The findings indicate that the reputation and credibility of the members of the Shariah committee significantly impact the effectiveness and perception of Islamic banks. During the discussion, participants stress the importance of customers thoroughly assessing the integrity and expertise of committee members prior to establishing an account, as this installs a sense of trust in their adherence to Shariah principles.

*".....Reputation is, without a doubt, the primary factor. I mean, you can't overemphasise the importance of a bank's reputation as a shariah compliant institution because the main thing that attracts people to a particular Islamic bank is the good reputation of its Shariah committee and any slur cast upon that reputation will turn such potential religiously conscious customers away....."* (P11)

Participants in the study believe that the reputation of the Committee and its members plays a vital role in attracting customers who prioritise religious compliance. They emphasised that having well-known Islamic finance experts on the Shariah committee enhances trust and may even convince customers to move their money to a bank where these scholars are involved. Overall, the participants stressed the importance of a strong reputation and the presence of renowned professionals in maintaining the Bank's Shariah-compliant status and attracting conscientious customers.

*“.....Having notable scholars (Experienced Shariah Scholars) who have considerable experience in Islamic financial transactions on (A) the Bank's Shariah committee enhanced confidence in the Bank and its Shariah committee.....” (P24)*

The participants also shared that the influence of committee members goes beyond customers' perceptions. Their reputation directly impacts the overall reputation of the Bank itself. If committee members are highly regarded and respected in the community, it adds credibility and trustworthiness to the Bank's image. On the other hand, if committee members have a poor reputation or their credibility is questioned, it can significantly damage Bank's reputation in the public's and customers' perceptions.

*“.....Reputation is, without a doubt, the primary factor. I mean, you can't overemphasise the importance of a bank's reputation as a shariah compliant institution because the main thing that attracts people to a particular Islamic bank is the good reputation of its Shariah committee and any slur cast upon that reputation will turn such potential religiously conscious customers away.....” (P11)*

Participants also acknowledge the significance of publications and knowledge in the area of Islamic finance as elements that may enhance the efficacy of the committee and client satisfaction.

*“.....This definitely has a significant impact. I mean, if a sheikh with many published research papers on Islamic transactions such as Murabaha, speculation and lease suddenly joins the Shariah committee of a particular bank, this will give a powerful boost to the Bank and attract customers with huge cash balances. In fact, some moneyed customers may even transfer their cash balances to a particular bank just because a scholar, who enjoys wide-spread public confidence and possesses substantial experience in Islamic banking transactions, joins its Shariah board Shariah committee.....” (P26)*

Overall, Shariah committee members' reputations and skills are critical factors influencing client confidence, bank reputation, and the Committee's overall efficacy in Islamic banking.

#### **4.1.4 Academic background**

The theme focuses on various factors concerning the academic background of Islamic banks' Shariah Committees. Participants emphasised that education and experience of committee members in Islamic finance significantly contribute to their effectiveness. They stressed the importance of holding degrees specifically in finance or Islamic finance, as it adds credibility and enhances the Committee's performance. Interview 16 specifically highlights the significance of committee members possessing advanced degrees.

*“.....The education and experience of the members of the Committee can also play a role in their effectiveness, as I mentioned above. If the committee members do not have adequate knowledge and experience in Islamic finance, their opinions and recommendations may not be considered credible.....” (P16)*

Some participants also suggested a diverse composition of the Committee, including Shariah scholars, economists or accountants, and legal experts, would be beneficial.

*“.....As I mentioned earlier, it is currently composed solely of Shariah scholars, but what it should be is more diverse. So, if the board is composed of 5 members, 3 should be Shariah scholars with experience in Islamic financial transactions, one economist or accountant and the fifth should be a legal expert.....” (P 25)*

*“.....There is no doubt that diversity of academic experience in the field of Islamic banking as well as administrative collaboration, is very important. Transparency concerning handling documents is also one of the most influential factors.....” (P 27)*

Furthermore, they also talked about how crucial English proficiency is for Shariah Committee members in Islamic banks. The results of the analysis indicate that it is essential for the members of the Shariah committee to be able to handle documents in both Arabic and English. The participants noted that a sizable percentage of corporate agreements and transactions in Islamic institutions take place in English. Therefore, the Committee's membership and overall performance are considered to benefit from English language proficiency. Furthermore, various products and services in Islamic banks are sourced from traditional or foreign banks, highlighting the importance of English fluency.

*“.....The membership in the SC and level of English proficiency are influential factors. Some documents are in English; therefore, the members of the SC and the bank members are required to be proficient in English.....” (P29)*

Another participant shares that:

*“.....It is very important because all our transactions here at Alinma Bank are in English, and all or practically all corporate agreements are in English. I'd even say that only 15% of such agreements are drafted in the Arabic language.....” (P24)*

#### **4.1.5 Composition and Competence of SCs**

Participants also debated the composition and size of IBs' SCs. The majority of participants stated that the Committee should be composed of three to five members. This choice stems from the participant's belief that it will prevent deadlocked votes and ensure a balanced decision-making process.

*“.....The size of the Committee is one of the essential priorities; the more the number of members, the more reliable and authenticated the decisions made by the Committee. Independence is an essential matter for the work of the Committee.....” (P 9)*

Furthermore, the Committee's size is regarded as significant, with larger institutions frequently requiring a larger number of members for effective operation and job distribution. Overall, the Shariah Committee's composition, size, and independence are seen as critical factors for credible and authenticated decision-making.

*“.....The number is better at least five members because the Bank's operations are very complex, which helps distribute work. There is participation in other committees, such as risk management and the board of directors. If you speak that the Bank is Islamic.....” (P16)*

Some individuals recommend that members hold a degree from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to enhance their expertise.

*“.....Of course, there are entities that set standards and award degrees, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Why not launch an initiative that members of the Shariah committee should hold an*



*AAOIFI degree? Only one with such a degree is in this Bank's Shariah committee. Of course, a few hold an AAOIFI degree in KSA, but I'm referring to this Bank's Shariah committee, where, to my limited knowledge, none holds such a degree.....” (P 11)*

## **5. Discussion**

### **5.1 Factors Affecting the Involvement of Shariah Committees in Risk Management**

#### **5.1.1 Access and Availability**

The study participants underscored the significance of unrestricted access to bank documents for the Shariah committee to carry out its responsibilities in risk management proficiently. The committee acknowledged the significance of unfettered information access, as it empowers them to make well-informed decisions and offer suitable guidance to ensure adherence to Shariah principles. Participant P24 expressed that the aspect above holds undeniable significance and exerts a substantial influence. Granting unrestricted access to documents can yield favorable outcomes; however, it is crucial to acknowledge that there are instances where such an approach may lead to adverse consequences.

As mentioned earlier, the findings follow the research by Halim and Ahmad, (2014), wherein he investigated the significance of Shariah committees in Malaysia. The committee has determined that the availability of pertinent documents is of utmost importance to assess banking practices' adherence to Islamic principles effectively. In a new research, Fatmawati and colleagues (2022), an examination of Shariah governance practices in the UAE's Islamic banking sector revealed significant finding. The researchers concluded that the unhindered availability of information is pivotal in enabling Shariah committees to effectively carry out their oversight responsibilities.

Participants in this survey also emphasized the lack of competent Shariah experts in the Islamic banking sector. They stated issues regarding the small number of relevant individuals who could serve on the group. Participant P 14 said, "A significant element, however, the contrary applies in the Kingdom of Saudi Arabia, since there does not exist such collection, and Islamic banks presently require additional Shariah experts."

These results are consistent with the investigation on Shariah management in Malaysian Islamic banks carried out by Razack (2007). It was also noted that a

problem that limits the efficacy of Shariah boards is the lack of competent Shariah experts. A study was conducted, as reported by Hamza et al. (2013), to investigate the crucial function that Shariah committees perform in Islamic banks of Saudi Arabia. The results demonstrated or exhibited that the Shariah organizations faced a major challenge in addressing the scarcity of appropriately trained professionals. As a result, organizations or institutions are finding it increasingly challenging to issue correct and timely fatwas due to this lack or absence.

Consistent with previous research, this study explored the factors that affect Shariah committee involvement or association in risk mitigation. An essential part of the committee's ability to make current decisions and fatwas is the readily accessible nature of relevant resources. However, the committee has challenges in keeping itself fully updated of the bank's operations due to the limited pool of qualified or skilled people for the position of Shariah investigator.

These findings emphasize the need to solve these aspects to improve Shariah risk control in Islamic organizations. Increased access to important data and the assistance of qualified Shariah scholars could increase Shariah board efficiency and effectiveness. Islamic banking institutions must assess these significant successes while developing Shariah risk mitigation policies and practices.

### **5.1.2 Governance and Structure**

The Shariah committee's success depended on its relationship with the bank's administration, according to the report. For Shariah risk governance to be effective, the bank's administration or management and the Shariah committee must operate jointly, according to Nguyen, (2021). Communication and cooperation improve evaluation, decision-making and Islamic law compliance, which improves the banking company's bottom line, according to research.

Furthermore, a recent study demonstrates that the structure of the banking organization has a significant impact on the Shariah committee's efficacy (Isa et al., 2022). The necessity of collaboration for accurate tracking, knowledgeable decision-making, and Shariah compliance was emphasized by the participants. The results corroborate those of Mohammed et al. (2020), who discovered that organizational structure has a significant impact on Shariah governance procedures and

methodologies. To foster collaboration, the study suggested that the bank's Shariah committee be better organized and that upper management be involved.

Research participants highlighted the authority and importance of the Shariah committee in evaluating the bank's organizational structure and Shariah-compliant activities. Furthermore, they contended that being on the board of directors of the financial institution would improve the efficacy of the committee and its adherence to corporate governance standards. These findings support Ayedh et al. (2021) claim that a separate Shariah committee boosts Islamic financial organizations' reliability and efficiency.

Several scholars raised concerns about the committee's independence in providing recommendations, especially in central decision-making organizations. Malkawi, (2013) found that a centralized decision-making structure may limit the Shariah committee's independence and ability to implement recommendations. In conclusion, our study confirms and augments prior experts' conclusions that Islamic banks prosper when employees collaborate, fulfill specific roles and duties, are independent, and serve on Shariah committees. The results emphasize the committee's close relationship with the management of the bank and its degree of independence in making decisions and overseeing operations. To succeed in Islamic bank Shariah risk monitoring and management, these aspects must be prioritized.

### ***5.1.3 Reputation and Publications***

According to the study's findings, there are a lot of variables and factors that influence the amount of activeness Shariah committees. Within Islamic financial institutions and banking, these organizations are in charge of risk management. Several significant themes emerged and developed from the research, the most important of which is the significance that the Shariah committee members' identities and publications entail.

Survey applicants agree that public views or perceptions and the efficacy of Islamic banks are heavily affected and influenced by the legitimacy and status of the

Shariah committee members. Customers with strong religious beliefs and convictions tend to choose Islamic banks with a history of adhering to Shariah law; hence, this is an essential aspect and consideration when selecting an Islamic bank to collaborate with. The earlier finding is in agreement or in line with the prior research by Grassa (2013), which indicated a strong correlation between the extent of trust among Islamic banks and the distinguished reputation and image of their Shariah committees. The individuals who took part in the survey highlighted the importance of the image of a bank and reliability of its Shariah board members as crucial elements in recruiting and maintaining clients (Aziah Abu Kasim, 2012).

Moreover, the research's participants emphasized the importance of well-known Islamic finance researchers assisting on the Shariah committee. The result not only builds confidence but may also encourage clients to send the money to a bank related to such respected experts. Contributing to this finding is the work of Puspitasari and Handayani, (2020), who studied the effect of supervisory knowledge on Islamic bank profitability. The study's authors found that banks' bottom lines benefit when Shariah board members had relevant professional experience. The reason is that it supports the confidence of shareholders in the bank's dedication to Shariah compliance.

Furthermore, our research indicates the credibility of the banking's Shariah board members has an immediate influence on the credibility of the financial institution as a whole. The previously reported study by Shafii et al. (2010) provides support for the conclusion since it carefully investigated how Islamic banks across Malaysia were affected by the attributes of their Shariah committees. The credibility and position of Islamic banks are substantially affected by the status and knowledge of the individuals who serve on its Shariah committees, according to research by Noordin and Kassim, (2019).

Our study respondents valued credibility highly, but they also emphasized being well-versed in Islamic finance and having strong writing skills. A lot of people think that the committee's expertise or publications and understanding of Islamic finance make it more successful and raise the degree of customer happiness and satisfaction. Our results are in agreement with those of Isa et al. (2022), who

researched the impact of Shariah experts' accreditation on Islamic banks' efficacy and efficiency.

Consistent with previous scholarly research, our analysis found that the credibility and history of Shariah committee members were very important. Such qualities are essential in Islamic banking for drawing over customers, preserving the bank's reputation, and improving the committee's performance and efficiency. The public's perception of Shariah group members and participants is vital to the legitimacy and validity of Islamic banks. Further, the committee's knowledge of Islamic finance and their publications enhance and improve both their efficiency and the satisfaction of their clients.

#### ***5.1.4 Prior education***

Some of the elements influencing Shariah Boards' participation and involvement in Islamic banks' risk management comprise several criteria about the committee members' backgrounds in education. The study's participants stressed and highlighted that the effectiveness of Shariah Committees is strongly correlated with the education and experience of its members in the field of Islamic finance. Membership on the committee must be based on experience and knowledge in banking and Islamic finance. Individuals will be able to back their views with greater proof and produce better results (P16).

Similar results have been found by other studies and research in the field. Results from studies on Islamic bank Shariah governance by Noordin and Kassim (2019), Shafii et al. (2010), and Alkhamees (2013) are noteworthy. The research indicated and showed that members of Shariah boards were more effective in their roles when they held higher educational qualifications. Expertise in Islamic finance is necessary for the Shariah Committee to make legitimate and proper judgments and findings, according to the investigators. As mentioned earlier, the research is consistent with the current study's conclusions, which emphasize that Shariah Committee members should have a strong academic background and substantial practical expertise in Islamic banking.

Furthermore, the participants in this study agreed that the Shariah Committee would be more effective if it included individuals with expertise in finance and Shariah investigations. A diverse group is better able to integrate various viewpoints and areas

of expertise because of its diverse membership. This will greatly improve the decision-making process and enhance the operational effectiveness of risk management procedures. Research conducted by Errico and Sundararajan, (2002) adds support to the previously stated conclusion. This study was aimed at clarifying whether Islamic financial companies might improve their risk management processes by exploring the importance of diversity within Shariah committees. Investigators found that a diversified composition, including a wide range of academic subjects and professional competencies, plays a vital part in increasing the effectiveness of risk management operations in Islamic financial institutions.

Openness and effective contact have been identified as two of the most crucial components within the framework of Shariah Committees. All parties involved in the present investigation stressed the need for organizational cooperation and the significance of transparency in document management. All mentioned and stated thus far are in line with the findings of the many academic studies that looked at how Islamic banks' level of transparency affected the way they conducted and managed their business. Evidence suggests that Shariah Committees are more productive and effective when they use open administration practices, such as clear standards for document handling and the development of effective means of communication.

The research also showed that Islamic financial institutions and Shariah committee members should be quite fluent in the English language. Subjects report that English is the language of choice for many Islamic institutions and organizations' economic dealings. Committee members must possess essential committee members and possess an exceptional command of the English language. These results are consistent with those of Grassa (2013), who studied the difficulties encountered by Islamic finance specialists and experts that are skilled in Shariah law. Dealing with the complexities of the world's financial markets and effectively communicating with a wide variety of stakeholders requires Shariah researchers to be proficient in the English language.

Islamic organizations and Shariah Committee members should have advanced degrees is the foundation of this study's findings. Several critical factors influence the degree to which Shariah Committees are involved in risk management. Some of these qualities include an inclusive makeup, fluency in many languages, openness, honesty,

and experience in Islamic banking. After adding previously known Shariah risk control, the outcomes are considerable. Experts in Islamic finance, as well as legislators and politicians in Saudi Arabia, may gain a lot from their perceptive comments and remarks.

### **5.1.5 Composition and Competence of SCs**

Researchers and participants in the study had an extended debate and discussion on the constitution and the efficacy of Islamic bank Shariah Committees (SCs). This discussion centered on the way these factors and variables impact SCs' capacity to play an active role in risk management. We were led to believe that SCs should not contain more than five staff members or employees based on the data we had. They contended that by lowering the frequency of secured discussions, this structure would lead to a more democratic and reasonable method of decision-making.

Others in the group raised the scope of the board, arguing that more individuals on the committee would allow them to make decisions that were more based on facts. The members of the committee emphasized the importance of personal initiative in their work. The credibility and validity of the decision-making process are reportedly undermined unless an impartial Committee is established. The size of the committee was taken into account along with the complexities of the Islamic bank's operations. Participants indicated that larger organizations need more advisory board members to efficiently distribute and manage duties. To ensure that Islamic financial institutions make reliable decisions, the Shariah Committee's membership, size, and impartiality must be examined. Several participants' experienced SC members should have credentials from the highly regarded AAOIFI, an auditing and accounting association for Islamic financial institutions. After the session, they believed participants' abilities and knowledge would increase. One participant that the SC requires AAOIFI certification for all members. The fact that just a small number of Saudis have AAOIFI certificates has drawn observation. No recognized SC members from that bank fulfilled this condition. SC members must have extensive training and expertise, following this guideline.

The conclusions of this study match those of prominent Islamic financial academics. In their complex study on Islamic banking administration, Nguyen (2021) evaluated Shariah committee membership and independence. A restricted set of highly skilled Supreme Court justices would make more fair rulings with less prejudice, according to experts. This supports the participants' claim that a three-to-five-person Committee is ideal.



Participants recommend a three-to-five-person Committee. The individuals agree with Wardhany and Arshad, (2012) on AAOIFI credentials. Based on the scientists' extensive study of Shariah policy in Islamic financial institutions, Shariah Committee (SC) members are expected to know Islamic banking. Credentials from respected organizations like AAOIFI are below. This idea strengthens the group's proposal to increase SC members' skills.

Islamic bank risk management relies on Shariah Committee flexibility, number, and composition, according to the study. Since their perspectives match scholarly research, they must all agree that these criteria are important. Making AAOIFI degrees compulsory for SC members shows the growing need for Islamic financial experts. Important considerations like this enrich Shariah's risk management conversations. To give Saudi Arabian Islamic banks a complete compliance structure, they must be involved.

## **6. Conclusion**

It concludes that a variety of factors may influence the involvement of the Shariah committee in administration procedures in Saudi Arabian Islamic banks. Some of these enabling aspects include a strong regulatory framework that promotes Shariah compliance, efficient interaction between the committee of Shariah and the financial institution's management, and an extensive knowledge of the principles of Islamic banking. However, obstacles can also include challenges in applying Shariah to complex financial services, potential contradictions between conventional risk control methods and the principles of Shariah, and an absence of qualified Shariah scholars with financial services and risk management backgrounds. Investigating and analyzing the Saudi Arabian context in great detail is necessary to comprehend the distinct forces in action.

## **Limitations**

Although comprehensive, the research is restricted to Islamic banks in Saudi Arabia. The study's social significance depends on these spatial constraints, yet they could additionally render it less relevant to other Islamic finance structures in other countries. Although there is variation in interpreting information and a limited sample size, qualitative study provides depth. The study's focus on Shariah Committees in managing risks is important, but it may overlook other issues with corporate

responsibility in Islamic banking. Lastly, the study does not include consumer opinions. These limitations draw attention to the requirement for more study to take into account different populations and get a deeper understanding of the risk management responsibilities of the Shari'ah Committee in Saudi Arabian Islamic institutions.

## **7. Future research direction**

This study investigates the complicated domain of specific factors that influence Shariah committee participation in risk management. Potential directions for future study include a more thorough examination of different variables and the impacts that come from them. Further investigation into the specifics of risk management techniques employed by conventional and Islamic banks through a comprehensive comparative analysis is a promising avenue for study. It also seeks to highlight the special problems and obstacles faced by Islamic banking and offer thoughtful answers to deal with them.

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