

INSTITUTIONALISATION OF
THE SHARIAH GOVERNANCE PRACTICES
IN A MALAYSIAN ISLAMIC BANK

BY

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ABSTRACT

This explanatory case study aims to explain the institutionalisation of Shariah governance practices in a Malaysian Islamic bank, with emphasis on the changes resulting from the evolution of the Shariah governance framework and policy issued by Bank Negara Malaysia. Semi-structured interviews and document reviews were used to collect empirical data. Based on the study outcomes, the institutionalisation of Shariah governance practice occurred through the gradual routinisation of rules. As such, the bank would incorporate the evolution made in Shariah governance from GPS 1 2004 to SGF 2010 and the recent SGPD 2019.

Isomorphic pressures to fulfil the regulator's requirements and emulate other institutions in the same environmental field could have influenced Shariah governance practice adoption in the bank during the preliminary stages of Shariah governance evolution, which led to their ceremonial adoption. Despite being a time-consuming and costly process that involves internal-level challenges, institutionalisation can be realised with support from the top management and Shariah Committee to internally change the framework and policy requirements. This process establishes the credibility and culture of institutional members to enact, reproduce, and institutionalise novel practices.

In summary, the institutionalisation of Shariah governance practices proved pivotal for Islamic bank growth and success in Malaysia. This study provided key insights into the current state and elements of robust Shariah governance practices, which are mandatorily or voluntarily required. It is crucial to institutionalise these practices and elevate the bank's Shariah compliance reputation to enhance stakeholders' trust and confidence, promote transparency, accountability, sustainability, and mitigate the risk of Shariah non-compliance. Strong support from the regulator, top management, the Shariah Committee and the Shariah officers is vital. Overall, the study results could benefit regulatory bodies, Islamic financial institutions, and other industrial stakeholders.

الملخص

تهدف دراسة الحالة التفسيرية هذه إلى شرح إضفاء الطابع المؤسسي على ممارسات الحوكمة الشرعية في أحد البنوك الإسلامية الماليزية، مع التركيز على التغييرات الناتجة عن تطور إطار وسياسة الحوكمة الشرعية الصادرة عن البنك المركزي الماليزي. واستخدمت مقابلات واستعراضات شبه منظمة للوثائق لجمع بيانات تجريبية. بناءً على نتائج الدراسة، حدث إضفاء الطابع المؤسسي على ممارسة حكم الشريعة من خلال الروتين التدريجي للقواعد. على هذا النحو، سيدمج البنك التطور الذي تم إجراؤه في حوكمة الشريعة من الخطوط التوجيهية الشرعية 2004 1 (GPS) إلى إطار حكم الشريعة (SGF) 2010 ووثيقة سياسة الحكم الشرعية الأخيرة 2019 (SGPD).

كان من الممكن أن تؤثر الضغوط التصاعدية للوفاء بمتطلبات المنظم ومحاكاة المؤسسات الأخرى في نفس المجال البيئي على تبني ممارسة حوكمة الشريعة في البنك خلال المراحل الأولية من تطور الحكم الشرعي، مما أدى إلى تبنيها بشكل احتفالي. على الرغم من كونها عملية تستغرق وقتاً طويلاً ومكلفة وتتطوي على تحديات على المستوى الداخلي، يمكن تحقيق إضفاء الطابع المؤسسي بدعم من الإدارة العليا ولجنة الشريعة لتغيير متطلبات الإطار والسياسة داخلياً. هذه العملية ترسي مصداقية وثقافة الأعضاء المؤسسين لسن واستنساخ وإضفاء الطابع المؤسسي على الممارسات الجديدة.

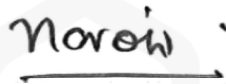
بإيجاز، أثبت إضفاء الطابع المؤسسي على ممارسات الحكم الشرعية أنه محوري لنمو البنك الإسلامي ونجاحه في ماليزيا. قدمت هذه الدراسة رؤى رئيسية حول الحالة الحالية وعناصر ممارسات الحكم الشرعية القوية، والتي هي مطلوبة إلزامياً أو طواعية. من الأهمية بمكان إضفاء الطابع المؤسسي على هذه الممارسات ورفع سمعة الامتثال الشرعي للبنك لتعزيز ثقة أصحاب المصلحة وثقتهم، وتعزيز الشفافية والمساءلة، والتخفيف من مخاطر عدم الامتثال للشريعة. الدعم القوي من المنظم والإدارة العليا ولجنة الشريعة أمر حيوي. بشكل عام، يمكن أن تفيد نتائج الدراسة الهيئات التنظيمية والمؤسسات المالية الإسلامية وأصحاب المصلحة الصناعيين الآخرين.

APPROVAL PAGE

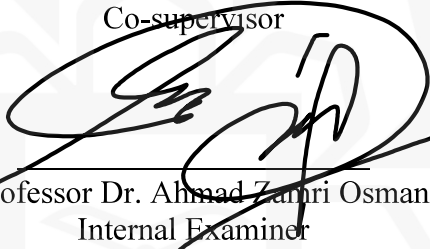
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DECLARATION

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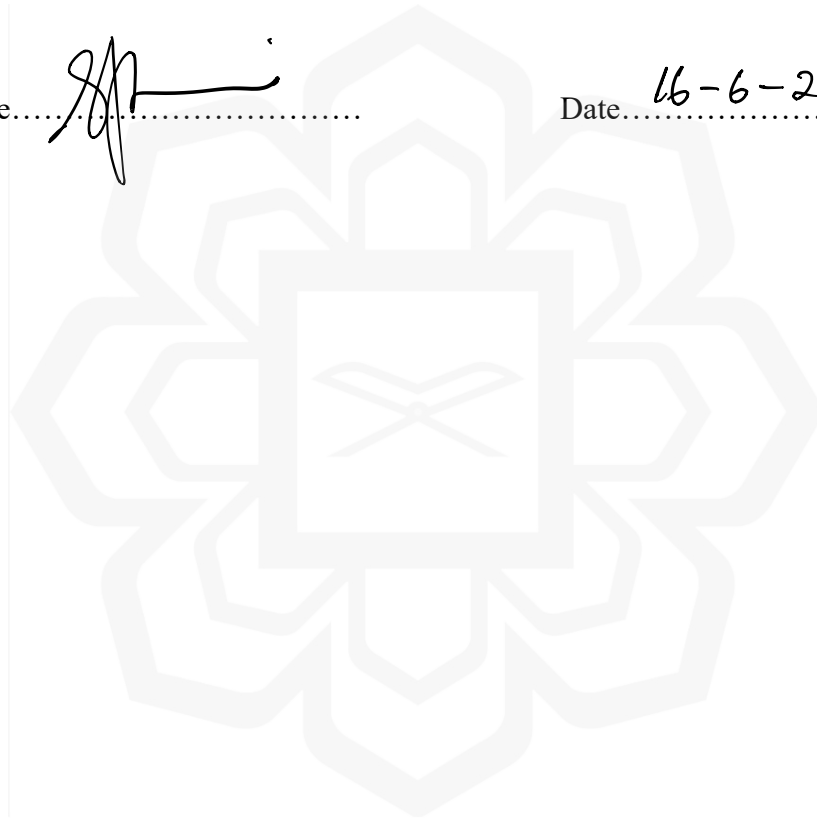
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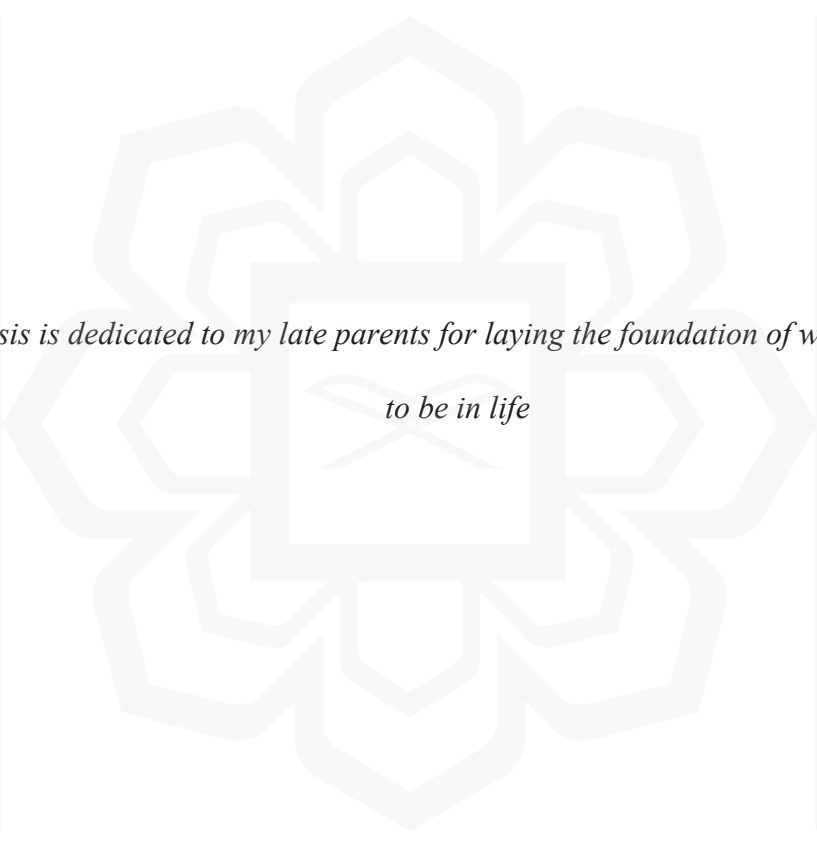
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*This thesis is dedicated to my late parents for laying the foundation of what I turned out
to be in life*

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LIST OF ABBREVIATIONS

ASAS	Association of Shariah Advisors in Islamic Finance
BAFIA 1989	Banking and Financial Institutions Act 1989
BNM GPS 1	Bank Negara Malaysia Garis Panduan Shariah Satu
BNM	Bank Negara Malaysia
BOD	Board of Directors
IFI	Islamic Financial Institution
IBA 1983	Islamic Banking Act 1983
IFSA 2013	Islamic Financial Services Act 2013
NIE	New Institutional Economic
NIS	New Institutional Society
OIE	Old Institutional Economic
ORION	Operational Risk Integrated Online Network
PBUH	Peace Be Upon Him
SGF 2010	Shariah Governance Framework 2010
SGPD 2019	Shariah Governance Policy Document 2019
SME	Small Medium Enterprise
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Malaysia has witnessed exponential growth in Islamic finance, which has become a robust industry in the country. As such, sound Shariah governance practices are necessary for the integrity and credibility of Islamic financial institutions (IFIs). Shariah governance denotes a system of rules, processes, and structures that ensure IFIs' adherence to Shariah. Shariah governance practices have been gradually institutionalised in Malaysian Islamic banks. For example, Bank Negara Malaysia (BNM) issued the Shariah Governance Framework (SGF) in 2010, Islamic Financial Services Act (IFSA) in 2013, and Shariah Governance Policy Document (SGPD) in 2019 as holistic Shariah governance guidelines and standards in IFIs. SGF 2010 was subsequently replaced with SGPD 2019, which was key to institutionalising Shariah governance practices in Malaysian Islamic banks. As a blueprint for establishing and implementing optimal Shariah governance practices, this framework underscores the significance of Shariah governance among IFIs.

This study examined two core components: (i) the evolution of Shariah governance and (ii) the institutionalisation of Shariah governance practices as a socially constructed phenomenon. The first component enhances Islamic banks' credibility. From a scholarly perspective, Shariah compliance is embedded into institutional products, services, and activities. Nevertheless, the implications of the global financial crisis on these institutions, which have altered the regulations that require compliance, are under-examined. The second component entails knowledge that is collectively and continuously produced and reproduced over time via actions and interactions. Presumably, Shariah compliance

evolved from Shariah governance. Given the challenges in altering Shariah governance practices, it is deemed appropriate to work with and through existing practices. This study aimed (i) to explain the evolution of Shariah governance practices in a Malaysian Islamic bank which initiates its institutionalisation in Islamic banks, and (ii) to understand the institutionalisation of Shariah governance practices internally (within Islamic banks) by examining the Shariah governance practices regulations. Overall, the current work strives to understand the institutionalisation of Shariah governance practices in Malaysian Islamic banks.

1.2 PROBLEM STATEMENT

Challenges involving the lack of coordination between distinctive Shariah control functions, low transparency and disclosure of Shariah compliance information, insufficient Shariah experts, and poor coordination between the Shariah Committee and bank management remain unresolved despite the evolution of Shariah governance. These complexities can be addressed with a more transparent Shariah governance practices disclosure (Sulaiman and Mohamad, 2022; Alam et al., 2020; Karbhari et al., 2020; Isa et al., 2020).

The failure of Shariah governance evolutions in promoting adherence to Shariah principles has been heavily criticised. Such non-compliance will lower institutional credibility and image (Hamza, 2013), instigate differences of opinion between business managers and Shariah researchers (Ullah et al., 2016), undermine Shariah advisory competencies and responsibilities (Hassan et al., 2014), lead to replications of conventional products (Dar, 2011) and conventional accounting standards (Rosly, 2010), lack ex-post

Shariah audit (Singh, 2009), encourage interest-oriented financial statements (Abozaid, 2007), and neglect accounting disclosure (Hassan, 2005).

According to Hasan (2014), the notable gaps and drawbacks in Shariah governance practices reflect a lack of comprehension of the evolution and institutionalisation of Shariah governance and associated practices in Islamic banks. Shariah governance, which evolves over time, regulates the growth of Islamic banking in Malaysia. This growth results from high demands for Shariah-adherent goods (Abdullah and Kassim, 2009; Ullah and Lee, 2012) and the competitive edge maintained by these products to attract both Muslim and non-Muslim consumers (El Qorchi, 2005).

Past works have examined the improvements in Shariah governance practices, which have evolved following the issuance of guidelines and regulations and the Shariah governance-performance relationship (Naysary et al., 2020). The outcomes of this study are attributed to the improvements and changes derived from SGF 2010 towards accountability and responsibility as part of the five Shariah governance components. Another Shariah governance component (i.e., transparency) and the autonomy of the Shariah Committee and Shariah team can also be further enhanced (Naysary et al., 2020).

Nevertheless, research on the evolution and institutionalisation of Shariah governance and associated practices in Islamic banks, the key determinants of institutionalising Shariah governance practices in Islamic banks, and subsequent implications remains lacking. Existing empirical works also overlooked how the institutionalisation of Shariah governance practices could ensure optimal Shariah governance in Islamic banks. Therefore, this study offers significant implications for both Islamic banks and their stakeholders. First, it provides banks with practical recommendations for improving Shariah governance structures, policies, and procedures,

leading to enhanced legitimacy, increased trust, better risk management, and a potential competitive advantage. Second, it allows stakeholders to promote greater confidence in Islamic finance by fostering a deeper public understanding of Shariah governance. This will contribute towards protecting stakeholder rights and, ultimately, strengthen the resilience and robustness of the Islamic finance industry.

This study also aims to expand the current body of knowledge on the evolution of Shariah governance and the institutionalisation of its practices in Islamic banks while moulding the institutional members' actions and behaviour internally by addressing associated issues and challenges (Burns and Scapens, 2000). It is underpinned by the institutional theory, which applies to Shariah governance practices and their implementation to establish institutional rules following Karbhari et al. (2020). This involved using the institutional theory in institutional development and Shariah governance practices within the Islamic banking sector by employing a qualitative methodology via regulatory policies, guidelines, and regulations.

1.3 STUDY OBJECTIVES AND APPROACH

This study aimed to explore how Shariah governance practices have been institutionalised by complying with the evolving Shariah-compliant requirements set by BNM within Malaysian Islamic banks. The research specifically focused on the internal adoption of these governance practices. Additionally, it investigated the reasons behind these changes, the driving forces influencing them, and the behavioural implications of such shifts in Shariah control functions within EMERALD. The motivation for exploring the institutionalisation of Shariah governance practices is due to existing gaps and weaknesses in current practices, stemming from a lack of understanding about its evolution. The

complexity of Shariah compliance, which requires deep integration of Shariah principles, necessitates this exploration. Furthermore, exploring how institutionalisation occurs at the internal processes, controls, and norms within an institution is crucial for effective Shariah compliance and risk management. The overall goal is to gain an understanding of what drives the institutionalisation of Shariah governance practices in Islamic banks. The objectives of this study are as follows:

- i. To explain the evolution of Shariah governance in a Malaysian Islamic bank.
- ii. To understand the institutionalisation of Shariah governance practices in a Malaysian Islamic bank.

Empirical data were gathered through fieldwork and subsequently analysed. This research was conducted as an interpretive case study at an Islamic bank in Malaysia. For confidentiality purpose, the name 'EMERALD' is used as a pseudonym throughout this study. The bank offers a diverse array of Shariah-compliant financial products and services. Significant focus was given to Shariah governance, adherence to Shariah principles, and a strong risk management framework. Much emphasis was placed on Shariah governance, Shariah compliance, and risk management framework. These reasons underpinned the selection of EMERALD as a case for this study. Notably, EMERALD's effective implementation of Shariah governance practices motivated the researcher to examine the institution's evolution of Shariah governance and implementation of Shariah governance practices.

Documents from the bank website, Google search engines, archival records, and currently used documents spanning 11 years (2010-2021) were reviewed to consider the period before SGF 2010 up to after SGPD 2019. This study employed interviews and document reviews as primary research methods. Participant observation could not be performed following strict restrictions during COVID-19 in 2020 and 2021. Notably, the

data were gathered within EMERALD. Chapter Four presents the explanation for using the research methodology, methods, and data-gathering techniques. The following reasons justify the data-gathering process of this study:

- i. To delineate how an Islamic bank in Malaysia is influenced by the BNM-issued Shariah governance policies from 2010 to 2019.
- ii. To determine the requirements of BNM GPS 1, SGF 2010, IFSA 2013, and SGPD 2019 as observed by the institutional members in an Islamic bank.
- iii. To disclose the norms and values underlying Shariah governance practices.
- iv. To examine the issues encountered by an Islamic bank in institutionalising Shariah governance practices.
- v. To evaluate Shariah governance practices in terms of encoding, enacting, reproducing, and institutionalising Shariah governance in an Islamic bank.

The following research questions were developed in parallel with the underpinning institutional theory to attain the study objectives. The key concepts and terms are explained in Chapter Three.

The primary research questions are as follows: (i) Why does an Islamic bank institutionalise its Shariah governance practices? (ii) How does the institutionalisation of Shariah governance practices occur? (iii) What are the control mechanisms adopted to address issues involving the institutionalisation of Shariah governance practices in the Islamic bank?

The specific research questions are as follows:

- i. How does the evolution of Shariah governance happen in a Malaysian Islamic bank?

- ii. How does an Islamic bank affected by the Shariah governance issued by BNM from 2010 to 2019?
- iii. What are the roles and functions of BNM GPS 1, SGF 2010, IFSA 2013, and SGPD 2019 as observed by the institutional members of an Islamic bank?
- iv. What are the norms and values underpinning Shariah governance practices?
 - a. Do Shariah governance practices require new thought and performance processes in the Islamic bank?
 - b. What are the consequences of institutionalising Shariah governance practices?
 - c. How do Shariah governance practices institutionalise the key personnel structure, processes, and arrangements of Shariah governance?
 - d. How do Shariah governance practices institutionalise the products, services, operations, and management of an Islamic bank?
 - e. How do Shariah governance practices institutionalise the accounting disclosure of an Islamic bank?
- v. What are the challenges encountered by an Islamic bank in institutionalising Shariah governance practices?
 - a. What is the resistance to institutionalising Shariah governance practices?
 - b. How does an Islamic bank accommodate the issues pertaining to new thought and performance processes in an Islamic bank?
 - c. How do the control mechanism s implemented by the Islamic bank address resistance to institutionalising Shariah governance practices?
 - d. What measures are in place to manage challenges related to new thought and performance processes in Shariah governance?
- vi. How do Shariah governance practices encode, enact, reproduce, and institutionalise Shariah governance in an Islamic bank?

The underlying theory and case observations in this study must be examined to interpret the empirical outcomes. As such, the Burns and Scapens' (2000) framework was proposed via the institutional theory and old institutional economics (OIE) approach to justify the evolution of Shariah governance and understand the institutionalisation of its practices in EMERALD. This analytical approach was perceived from contextual and processual stances to understand and justify what, how, and why an incident occurs and the current circumstances under the institutionalisation of Shariah governance practices in a Malaysian Islamic bank.

1.4 THEORETICAL FRAMEWORK

This study used a theoretical framework model (see Figure 3.2) to analyse the institutionalisation of Shariah governance at the internal level in EMERALD. Burns and Scapens' (2000) framework, which underpinned the OIE theory, was adopted to explain the gradual institutionalisation of Shariah governance at the internal level. In this context, institutionalisation denotes accepting the transformation of current rules and routines owing to new ones (Soin et al., 2002). Such process occurs at the institutional level where ways of thinking and assumptions inform and mould institutional members' behaviour and action, which is performed over time throughout institutionalisation.

Management accounting rules (systems) and routines (practices), which constitute part of institutional regulators (Alsharari, 2015), are the central ideas of Burns and Scapens' framework. As depicted in SGF 2010, internal Shariah compliance is the core (Muryanto, 2023) component of this framework from the context of Shariah control functions (see Figure 1.1). The rules and routines of all four functions were thoroughly examined to elicit a sound understanding of the institutionalisation of Shariah governance practices in every function.

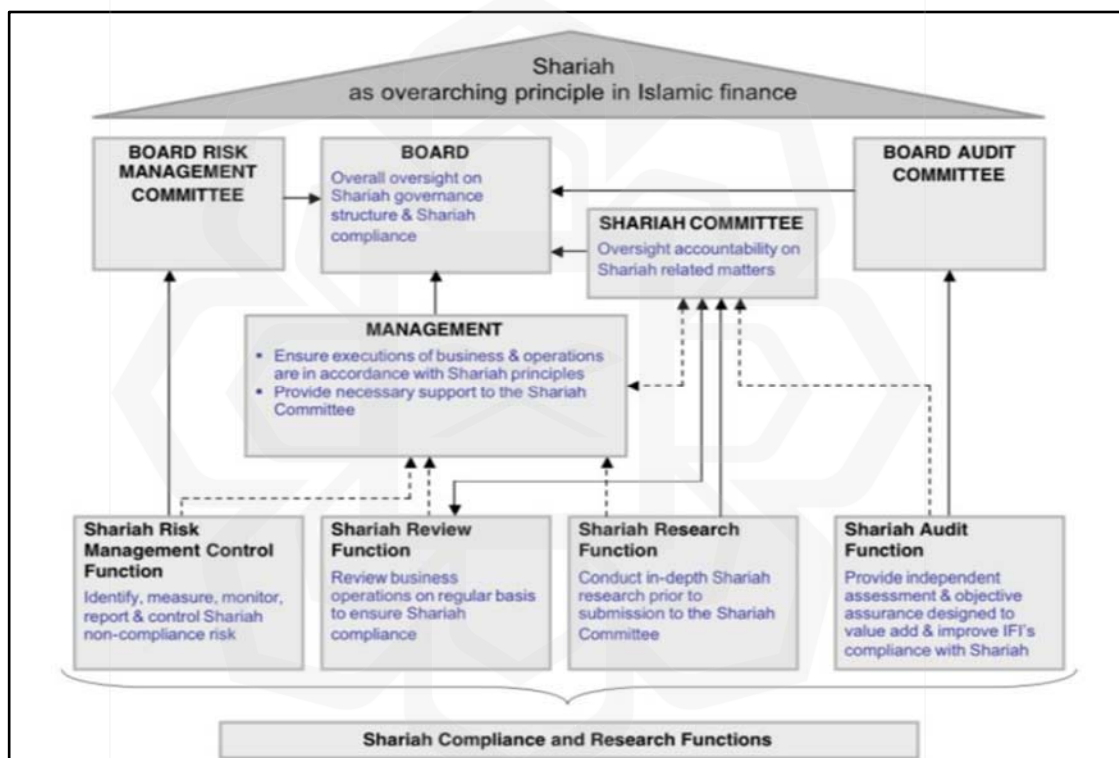


Figure 1.1 Shariah Governance Framework (2010)

Source: Bank Negara Malaysia

Research on institutionalisation requires a conceptualisation of how novel accounting practices gradually evolve (Nelson and Winter, 1982). Nonetheless, integrating Burns and Scapens' framework with Islamic banks would highlight the Shariah governance

system's strengths and weaknesses. As Shariah-compliant rules (system), routines (practices), and institutional members are bound by Shariah, this demonstration necessitates significant modifications.

In this study, the institutionalisation of Shariah governance practices is deemed the same, albeit with specific differences. Incorporating the Shariah compliance culture rendered it a norm (Siti Nabiha and Scapens, 2005), which adds value to the overall change process, such as the rules being encoded, institutional members' routines, gradual reproduction of routines, or institutionalisation. As a primary catalyst for shaping institutional members' actions and behaviours, Shariah compliance culture must be seriously regarded in institutionalising Shariah governance.

An institution's deviation from Shariah, which can tarnish the reputation of the industry, can be mitigated by inculcating a Shariah compliance culture into the daily operations of Islamic banks. The norms of Shariah compliance culture and its added value in this study differed from previous empirical research in interpreting the institutionalisation of Shariah governance practices within an Islamic bank.

1.5 SCOPE OF THE STUDY

The current work, which focused on one Islamic bank in Malaysia, is restricted to internal Shariah control functions, such as Shariah review, Shariah audit, and Shariah risk management functions in EMERALD. Here you need to add one or two sentences introducing EMERALD. And also indicate that EMERALD is a pseudonym. Although the outcomes may not be generalisable to other Islamic banks with similar intricacies, size, and

operational activities, the findings can provide guidelines for institutionalising Shariah governance practices.

Furthermore, the research objectives were attained using an iterative interview process with EMERALD's institutional members (Shariah officers from the top management and each Shariah control function) at institutional and internal levels. The participants reflected different experiences, knowledge, qualifications, attributes, and behaviours following their specific roles, functions, and culture regarding Shariah governance rules and routines in EMERALD. This study did not assume that participants would offer truthful or unbiased opinions regarding the institutionalisation of rules and routines, which could potentially lead to biased responses. Therefore, a series of interviews were conducted with EMERALD's Shariah officers. Triangulation was also performed with the reviewed documents to attain data validity and saturation. Although EMERALD could not provide full access to confidential documents, the actual circumstances of institutionalisation in EMERALD and each of the Shariah control functions were clearly depicted.

1.6 CONTRIBUTIONS OF THE STUDY

This research provides significant insights by examining the institutionalisation of Shariah governance practices at EMERALD, an Islamic bank that has adopted the evolving Shariah governance frameworks introduced by BNM, including GPS 1 in 2004, SGF in 2010, IFSA in 2013, and SGPD in 2019. The empirical findings offer a comprehensive perspective on BNM as a regulatory authority, along with key stakeholders such as customers, financial institutions, and investors (Ab Ghani et al., 2024; Alam et al., 2021), regarding the institutionalisation of Shariah governance practices in Islamic banks. These results serve

as a valuable knowledge resource for other Islamic banks facing challenges in implementing Shariah governance frameworks.

Burns and Scapens' (2000) framework was adapted in this study with the underpinning institutional theory. The novelty lies in applying the framework for the first time to Islamic accounting literature via the institutionalisation resulting from the evolution of Shariah governance practices. This study explains that the evolution and institutionalisation of Shariah governance practices directly influence Islamic accounting practices. As Shariah governance practices become deeper in Islamic banks, it requires specific accounting treatments and processes that are aligned with Shariah principles. This goes beyond simply adapting conventional accounting methods. A fundamental shift is necessary to ensure that all financial transactions and reporting are fully Shariah-compliant (Kamaruddin et al., 2024). The concept of institutionalisation serves as an important linkage between Shariah governance practices and Islamic accounting. Furthermore, having a Shariah control function is insufficient; these functions must be institutionalised and embedded in the bank's overall routines, processes, and culture. It is the institutionalisation that forms the true practice of Islamic accounting, ensuring that it not only complies with technical accounting standards but also reflects and embodies Shariah principles. Thus, this study connects Islamic accounting with institutionalisation, addressing a gap in Islamic accounting research. It focuses on institutionalisation that entails the establishment of four Shariah control functions—Shariah review, Shariah audit, Shariah risk management, and Shariah research—as required by SGF 2010. These functions comprise rules and routines with clear outputs to comprehend the efficient institutionalisation of Shariah governance practices in Malaysian IFIs, particularly Islamic banking. In summary, optimal Shariah governance enhances stakeholders' (the general public) trust in Shariah compliance.

The institutionalisation of Shariah governance in Islamic banks was extensively examined to holistically understand the subject matter, offer relevant practitioners with concrete knowledge and ideas on novel rules and routine processes, and generate key insights into the incorporation of new institutional practice. Practitioners should acknowledge specific institutional settings, including the proportion, qualification, and background knowledge of institutional members and accessible technology. Managers should review how past change programmes in institutions were received, incorporated, utilised, or neglected to effectively navigate future programmes in Islamic banks. In this context, having managers with a sound comprehension of the institutionalisation of Shariah governance practices will significantly influence future institutionalisation pathways.

This qualitative study provides an in-depth discussion on the institutionalisation of Shariah governance practices in Islamic banks. As of now, it stands as the first research to examine this process within an Islamic bank in alignment with the evolving Shariah governance framework. The outcomes provide key insights into Shariah compliance in the institutionalisation of Shariah governance practices at institutional and internal levels. This will facilitate the top management to acknowledge or develop multiple Shariah governance practices-oriented tools and mechanisms and address banks at early risk of failure with workable interventions.

1.7 ORGANISATION OF THE THESIS

This thesis is structured into seven chapters. Chapter One introduces the research by outlining the background, problem statement, objectives of the study and approach, and scope of the study. The theoretical framework and research contributions are also briefly elaborated.

Chapter Two begins by elaborating on corporate and Shariah governance followed by the regulatory developments of Shariah governance between 2004 and 2019 and the Shariah control functions governing Malaysian Islamic bank. It also outlines previous research and empirical evidence on Shariah governance practices, at the institutional level under Shariah control functions to highlight associated developments and complexities that underpin the growth of Islamic banks in Malaysia. The discussion then emphasises on the challenges and the key control functions within Shariah governance practices in Malaysian Islamic banks, including Shariah review, Shariah risk management, Shariah audit, and Shariah research.

Chapter Three introduces three fundamental concepts of institutional theory: new institutional economics (NIE), new institutional sociology (NIS), and old institutional economics (OIE). The institutionalisation of Shariah governance practices is analysed using Burns and Scapens' framework, along with key justifications for developing the study's theoretical foundation. Additionally, the concepts of loose coupling and decoupling are discussed to internalize (Sandberg et al., 2021) the core aspects of institutionalisation and their impact on Shariah governance practices.

Chapter Four explain on the philosophical assumptions and introduce the EMERALD's environment and background. This chapter also specifically details the rationale for using qualitative methodologies, such as interviews, document reviews, and data-gathering stages. The research framework is introduced to provide an overview of the study. Additionally, this chapter outlines the study design and data collection sources, followed by a concise explanation of the data triangulation process.

Chapter Five presents the key findings of the case study, focusing on the implementation of Shariah governance within the selected institution. It begins by

examining the regulatory influence on Shariah governance practices in EMERALD, followed by an overview of the evolution of these practices and the structure of the Shariah Division. The chapter then delves into the core Shariah control functions compliance, risk management, and audit highlighting key themes such as the enhancement of review processes, the need for Shariah competency, the transformation of procedures, and the prioritisation of Shariah knowledge. The chapter concludes with a summary of the main findings.

Chapter Six presents the institutionalisation in EMERALD. This chapter highlighting the isomorphic pressure, the evolutionary change and routinisation of rules in institutionalisation of Shariah governance practices in EMERALD. It explores the theoretical perspective of institutionalising Shariah governance and the isomorphism.

Lastly, Chapter Seven concludes the study by summarising and comparing the findings with other case study in getting insights to better understand the institutionalisation. The chapter further discussing theoretical and practical contributions, addressing limitations, and providing recommendations for future research.

CHAPTER TWO

SHARIAH GOVERNANCE

2.1 INTRODUCTION

This chapter provides a comprehensive examination of Shariah governance within the context of the Malaysian Islamic banking sector. It begins by outlining the principles of corporate governance to establish a baseline understanding, before turning to the conceptual foundations of Shariah governance. The discussion highlights the nature of Shariah governance and its application in Malaysian Islamic banks, offering insight into how the governance of Islamic banks is guided by both fiduciary accountability and Shariah compliance. Following this exploration, the chapter reviews the major regulatory developments of Shariah governance in Malaysia. These include the Governance of Shariah Committee Guidelines (2004), the Shariah Governance Framework (2010), the Islamic Financial Services Act (2013), and the Shariah Governance Policy Document (2019). Collectively, these frameworks represent Malaysia's progressive efforts to strengthen Shariah compliance in the Islamic financial industry.

Subsequently, the chapter further examines the operational practices of Shariah governance in Malaysian Islamic bank with particular attention to the Shariah review, Shariah risk management, Shariah audit and Shariah research. These Shariah functions are essential in ensuring that Islamic bank practices align with Shariah principles. Finally, the chapter addresses the practical challenges encountered in the implementation of Shariah governance and reflects on potential strategies to strengthen its application and resilience. In sum, this chapter aims to elucidate the conceptual foundations, regulatory developments and institutional practices from the Shariah governance perspectives. In doing so, it aims to contribute to a more nuanced understanding of how Shariah governance has developed and is currently applied in Malaysian Islamic bank which underscores the country's pivotal

role in pioneering Shariah-compliant governance structures within the global Islamic financial system.

2.2 CORPORATE GOVERNANCE

Corporate governance denotes the rules, practices, and processes (Naciti et al., 2022) that direct and manage an institution. Optimal corporate governance ensures effective institutional operationalisation and shareholder value maximisation (Alodat et al., 2022). Previous works (Tachizawa and Wong, 2015; Gallego-Álvarez and Pucheta-Martínez, 2020) implied that corporate governance involves institutional structure, incentive system, standard operating procedures, and resolution. As a notable framework that delineates an institution's distribution of power, responsibilities, and accountabilities, corporate governance entails the mechanisms, rules, processes, and relationships through which a corporation is directed and controlled to attain its objectives while considering multiple stakeholders' interests.

Optimal corporate governance can improve the transparency, accountability, ethical behaviour, sustainability, and success of an institution. As defined by the Organisation for Economic Co-operation and Development (OECD), corporate governance is a system that directs and controls corporations (Tabassum and Singh, 2020). The corporate governance framework is crucial in maintaining institutional sustainability through effective practices in board composition, executive compensation, risk management, and disclosure. Meanwhile, the International Finance Corporation (2005) defines corporate governance as a collection of mechanisms, processes, and relationships (Naciti et al., 2022) that guide and regulate an institution. Efficient corporate governance ensures institutional sustainability by maximising shareholder value while balancing other stakeholders' (employees, creditors, customers, and community members) interests. Based on the Cadbury Report UK

(1991), inefficient corporate governance could destabilise financial conditions and tarnish institutional reputation in the long run.

The Malaysian Codes of Corporate Governance (2021) define corporate governance as a framework of controls and processes that guide and regulate organisations. Fundamentally, corporate governance links the board of directors (BOD), shareholders, senior management, and other stakeholders. Strong internal controls within an effective corporate governance system promote transparency and accountability. In summary, corporate governance comprises rules, practices, and processes designed to create transparent, responsible, and equitable organisations that protect the interests of shareholders, stakeholders, and the public.

As a set of processes, policies, and laws that influence how an institution is governed, directed, managed, and controlled (Sulaiman et al., 2015), corporate governance entails the governance structure followed by key institutional members. While corporate governance does not differ significantly from Shariah governance, the novelty of Shariah governance stems from its adherence to Shariah principles in the products, operations, practices, and management of Islamic banks. Grassa and Matoussi (2014) claimed that IFIs (Islamic banks) operating under Shariah law reflect Shariah governance, which varies from corporate governance.

2.3 SHARIAH GOVERNANCE

Shariah governance encompasses the rules, regulations, policies, and procedures that ensure Islamic financial institutions operate in accordance with Shariah principles (Minhas, 2023). Shariah compliance is the essence of the Islamic finance industry. Relevant scholars use ‘Shariah governance’ or ‘Islamic corporate governance’ as a new terminology to

signify a governance system based on Islamic corporations or IFIs (Wilson, 2009; Hassan, 2010; Mizushima, 2014). The terminology of Shariah governance will be used henceforth in this study. Unlike the corporate governance narrative, Shariah governance depends on the objectives of an institution and its constituents. It mainly expands on how to conduct the governance system for Shariah compliance within the institution and to bridge the literature gaps in corporate governance theories associated with institutions providing Islamic products and services (Lewis, 2005). Recognising its vital role in stabilising the Islamic financial system, the institutionalisation of strong Shariah governance practices enhances public confidence in the integrity, management, and operations of Islamic financial institutions (IFIs).

Shariah governance is known as a system that safeguards Islamic bank activities and transactions from prohibited elements of *riba*, *gharar*, and *maysir* (Vernandos, 2010). It steers institutional members' operational practices towards Shariah compliance, a fundamental aspect of Islamic banking. The activities of Islamic banks are governed by Shariah principles and regulations under Shariah governance. However, non-compliance with Shariah adversely impacts the market and diminishes public confidence in the credibility of Islamic banks, posing a reputational risk.

Islamic banks' Shariah-compliant products and services that appeal to consumers can catalyse institutional growth (Lee and Ullah, 2011). In line with El Qorchi (2005), Ullah and Lee (2012) highlighted the need for Islamic bank products and services to be Shariah-adherent and maintain a competitive edge for exponential growth. Similarly, Abdullah and Kassim (2009) identified Shariah compliance as a primary catalyst for Islamic bank growth, which can be boosted by high product and service compliance with Shariah based on agreements or contracts, concepts, and objectives (Ahmed and Khatun, 2013). This suggests that Islamic bank growth is inextricably linked to Shariah compliance and that Shariah governance evolution serves as an effective means of setting more stringent regulations, specifically Shariah compliance, for Islamic banks.

Compliance promotes (Jenkinson, 1996) accountable actions and facts to fulfil rules and standards (Oxford Dictionary, 2015). Meanwhile, culture implies institutional members' beliefs, values, thinking, norms, behaviours, and actions (Schein, 1992). Jenkinson (1996) asserted that culture relies on individual values, attitudes, and behaviours. When combined, compliance culture denotes adapting rules and regulations to daily routines, which become the institutional members' beliefs, thoughts, norms, behaviours, and actions. Members who adapt to a compliance culture will demonstrate a change in working style, beliefs, thoughts, behaviours, and working environments and improved risk management performance. Whereas institutions that establish a compliance culture will encourage their members to routinely uphold positive attitudes, values, beliefs, and behaviours.

Morton (2005) proposed cooperative attitudes, timely information, senior management support, access to employee memos, reciprocal communication between organisational members and senior management, and consistent disciplinary action as the core components of a compliance culture. Given its subjective nature (Morton, 2005), compliance culture must be integrated with institutional members' rules and routines and comprise day-to-day decisions and actions without being affected by other external factors. Institutional members should consistently maintain Shariah compliance, which is an ongoing process governing all Islamic bank products and services. The conceptualisation of Shariah compliance (Ullah et al., 2016) stemmed from an increase in Islamic awareness (Chong and Liu, 2009), which significantly enhanced Islamic bank growth. This concept facilitates Islamic banks to maximise shareholders' wealth under the Shariah tenets and attain Shariah objectives (Dusuki and Abdullah, 2007)

Shariah compliance is a governance strategy for Islamic bank growth and developing stakeholders' confidence. The institutional members of an Islamic bank, which is established following Shariah principles and objectives, are required to ensure complete Shariah compliance based on aims, products, activities, operations, and management (Section 28[1], IFSA 2013). Consequently, Islamic banks reflect Shariah compliance as

their culture, which catalyses Islamic banks' institutionalisation of Shariah governance at the internal level (task performance rules and routines) via Islamic values, beliefs (*aqidah*), and ethics (*akhlaq*) (Hasan, 2011; Nathan and Ribeiro, 2007).

Nevertheless, limited research exists on Shariah compliance culture concerning contemporary business challenges, including fraud, exploitation, non-Islamic banking practices, and shifts in governance structures. Such unethical practices have led many Islamic banks to establish regulatory structures that strengthen their role in developing Islamic nations (Sulaiman et al., 2015). Furthermore, the financial and product innovations of Islamic banks that complement the globalisation effect compel these institutions to revise their governance policy for high technical effectiveness and affordability of Malaysian Islamic banks (Mokhtar et al., 2008). As mandated by Bursa Malaysia, all public listed companies must include an internal audit function (Kadir, 2009), which exemplifies institutionalisation.

2.3.1 SHARIAH GOVERNANCE AS A HOLISTIC WAY OF PRACTICE

Although Shariah governance provides IFIs, including Islamic banks, with an effective framework for implementation, Islamic scholars have not reached a consensus on a term to define the Shariah systems. Some researchers utilise the term 'Shariah' while others employ 'Islamic Shariah'. Other authors use both terms interchangeably. Thus, the definition of 'Shariah' must first be established to distinguish between both terms. Shariah is an Arabic word originating from the Quran, which means 'the path to travel', where Allah the Almighty advises individuals to live a prescribed way of life.

Shariah's definition of law transcends the conventional meaning by regulating every aspect of human life management on how to govern a nation. The universality of

Shariah law goes beyond countries or people to encompass elements of humanity, such as devotion, rites, morality, commerce, and penalties. Apart from educating Muslims on elements that are prohibited and sanctioned, this law regulates interpersonal interactions and the individual-God connection. In this context, institutional members must possess sufficient knowledge, skills, and talent to establish Shariah compliance as a culture that facilitates daily task performance.

Shariah implies the source of law, through which rules and regulations are constructed. Muslims perceive Allah as the one legislator and believe in the perfection of Shariah (His revelation) without any amendments. In other words, Shariah laws are unchangeable. Contrarily, legal standards, such as those in the BNM-issued Shariah governance that all Malaysian Islamic banks (including EMERALD) adhere to, can evolve over time. Fundamentally, Shariah is derived from (i) the Holy Quran, which contains sacred teachings, and (ii) the Sunnah, which encompasses the actions and sayings of Prophet Muhammad (PBUH). During His lifetime, the Prophet served as a primary reference for implementing binding Quranic rulings.

Sacred Islamic principles continue to be interpreted and applied despite the cessation of the divine revelations following His demise. Resultantly, novel supplementary sources following *Ijtihad* (human intellect effort or diligence) were created via *Ijma'* (consensus) and *Qiyas* (analogical reasoning). Fiqh collectively implies all the auxiliary sources (Islamic jurisprudence). Shariah is interpreted in three ways: (i) in a broad religious context, representing the Islamic code of conduct encompassing both legal and non-legal aspects; (ii) in a general legal sense, referring to Islamic legal practices derived from the Quran, Sunnah, and Fiqh and (iii) in a specific sense, where Shariah is confined to its primary sources the Quran and Sunnah (Muhamad et al., 2020) distinguishing it from Fiqh (Ramli et al., 2022).

Since no definitive conclusion can be drawn regarding whether Fiqh falls under the term 'Shariah' based on the above distinctions, this study adopts 'Shariah' as an inclusive concept encompassing all Islamic principles. This study explored the Shariah-compliant practices, behaviours or actions, and laws and rules governing an institution and its members as well as the subsequent evolvement of these practices towards institutionalisation. It focused on the development of Shariah governance and the establishment of Shariah governance practices within a Malaysian Islamic bank. Institutionalisation can occur by creating and implementing novel procedures and structures and through shifts in institutional structures, management roles and responsibilities, and Shariah governance practices compliance.

2.3.2 MALAYSIAN ISLAMIC BANK

Malaysia operates a parallel legal system that incorporates both common law and Shariah law (Muneeza and Mustapha, 2020). This integration facilitates the incorporation of Shariah law in Malaysian Islamic banking and finance practices (Hasan, 2011). According to Laldin and Furqani (2018), the advent of the Islamic finance sector in Malaysia necessitates robust Shariah governance for IFIs to ensure stringent Shariah compliance. Hasan's (2010) survey on the approach applied by Malaysia, Gulf Cooperation Council (GCC) nations, and the United Kingdom (UK) in regulating Shariah governance revealed Malaysia to be a leading regulator. Based on a comprehensive appraisal of Shariah governance practices in Malaysian Islamic banks, Malaysia is a leading country in regulating its Islamic finance industry, particularly from the Shariah governance aspect (Naysary et al., 2020).

The Islamic Banking Act (IBA) 1983 was the first initiative to regulate Islamic finance in Malaysia (Hutomo, 2020), which required Islamic banks providing Islamic services to be licensed and appoint a Shariah advisory body to oversee its Shariah

compliance. IBA (1983) empowered BNM to supervise all Malaysian Islamic banks and any branches opened outside Malaysia. Malaysia's first Islamic bank was established that same year. In 1989, the Banking and Financial Institutions Act (BAFIA), which governed conventional banking, allowed conventional banks to conduct Islamic transactions in compliance with Shariah principles and required the establishment of a Shariah advisory body (Alduaij, 2020).

The Central Bank Act of 1958 also oversaw the implementation of Islamic banking practices in Malaysia, particularly by establishing a national Shariah council within the Central Bank to regulate Shariah compliance in Islamic banks, the Shariah Advisory Council (SAC). Both the Islamic Banking Act (IBA) and the Banking and Financial Institutions Act (BAFIA) require Islamic banks to seek guidance from the SAC. However, while BAFIA mandates strict adherence to the SAC's rulings, the IBA adopted a more flexible approach. As the law did not explicitly define the authority of the SAC, the extent to which Malaysia employed a centralised or decentralised model for regulating Shariah governance remained unclear. Although the IBA was the first law dedicated to Islamic banking, its general and concise provisions merely facilitated the establishment and operation of Islamic banks in Malaysia (Hutomo, 2020). Meanwhile, BAFIA primarily regulates conventional institutions with a small section for Islamic windows (Yasin, 2007).

Shariah governance development in Malaysia began decades ago with general enforcements that depended on the bank itself to comply. However, industry expansion and the emergence of BNM as a regulatory authority prompted the development of Shariah governance (Ahmad and Ishak, 2021) guidelines and a framework to enforce stringent Shariah compliance practices and culture (Fatmawati et al., 2022). The current work justified Shariah governance evolution within Malaysian Islamic banks.

2.4 DEVELOPMENT OF SHARIAH GOVERNANCE IN MALAYSIAN ISLAMIC BANKS

The development of Shariah governance practices in Malaysia (Khatib et al., 2022; Naysary et al., 2020; Kamaruddin et al., 2020) began in the early 1980s up to 2019 through BNM-issued GPS 1 2004, SGF 2010, IFSA 2013, and SGPD 2019, which served as the study focus. Shariah governance has gradually developed through its application in Islamic banks. This progression has been shaped by suggestions from various Shariah scholars to address governance-related challenges. In this regard, Islamic banks must shift their activities for higher adherence of development for the evolution purpose. Shariah compliance culture is a core component other than specific routines and operating procedures that ensure robust Shariah governance practices in Islamic banks (Fatmawati et al., 2022). Penalties also compel these banks to amend their operational activities and processes. Therefore, this empirical study aimed to explain the rationale behind the institutionalisation of institutional processes in Islamic banks and to identify the regulatory mechanisms (Karbhari et al., 2020) or the control measures employed to address institutionalisation challenges.

Shariah governance has evolved several times between 2004 and 2019 to render Islamic bank regulations more stringent and address the key complexities in the Islamic banking sector. Undeniably, the Shariah governance in Malaysia has evolved over time. As a perpetual process with a broad range of technological and institutional changes, globalisation implies the need to accommodate social, political, and economic shifts that occur in current times. The process of globalisation encourages businesses and other institutions to expand their influence worldwide or establish operations on an international scale (Baloch et al., 2021). This rapidly develops the capital market for a robust economy while simultaneously increasing financial institutions' risk levels. Notably, multiple institutions have struggled to develop successfully and attain stability due to globalisation.

An effective management, characterised by participative top management focusing on employee well-being, motivation, and advanced information technologies, can significantly impact institutional performance, practices and adaptability to change. This is especially pertinent to the Islamic finance industry, where strong Shariah governance is essential for maintaining Shariah compliance (Alam et al., 2021). While the initial scope of Shariah governance was limited, the evolving regulatory landscape necessitates a more robust approach. Institutional members play a vital role in driving these changes while ensuring that IFIs adopt Shariah governance practices. This includes implementing comprehensive Shariah audit and review processes while complying with evolving environmental and societal expectations. Hence, detailed and complete legislation is necessary to regulate Shariah governance practices in Islamic banks. The following section discusses each type of Shariah governance included in this study between 2004 and 2019. Table 2.1 summarised the Shariah governance evolution phase, focuses and the key features for each from GPS 1 2004 to SGPD 2019 including IFSA 2013.

2.4.1 Governance of Shariah Committee Guidelines (BNM GPS 1/2004)

BNM, a regulatory body that oversees financial institutions, provides the Shariah Committee governance with guidelines to control institutional practices when necessary. Both the IBA 1983 and BAFIA 1989 have made these regulations obligatory for all banking and financial entities (Hanif and Haron, 2022). Notably, BNM issued guidelines on Shariah Committee governance for IFIs in 2004 to optimise Shariah governance in Malaysia. In addition to requiring each Malaysian Islamic bank to establish a Shariah Committee, these regulations provide directives on the appointment process, composition, eligibility criteria, roles, obligations, and limitations of its members (Muhammad et al., 2021). According to these regulations, the Board of Directors (BOD) of Islamic banks is responsible for appointing Shariah Committee members, subject to written approval from BNM. The guidelines also impose two key restrictions on the appointment of Shariah experts in IFIs: (i) an IFI is prohibited from appointing any member of the Shariah Advisory Council, and

(ii) an IFI must not appoint an expert who serves as a member of another IFI within the same sector (Abd Razak, 2020). The Shariah Advisory Council plays a pivotal role in Malaysia's Islamic financial institution landscape. As outlined in Section 51 of the Central Bank Act 2009, the Shariah Advisory Council holds the highest jurisdiction in determining Shariah law for Islamic financial institutions (Zainal Abidin et al., 2021). The Shariah Advisory Council is composed of esteemed Muslim jurists specialising in Islamic jurisprudence (Fiqh al-Muamalat) who are responsible for overseeing, supervising, and monitoring IFIs to ensure strict adherence to Shariah principles (Laldin and Furqani, 2018; Bakar et al., 2021). Malaysia adopts a two-tier Shariah governance framework (Faizi and Shuib, 2024; Alam, 2022; Zainal Abidin et al., 2021). At the highest level is the Shariah Advisory Council, established by BNM, consisting of economic experts and Shariah specialists. Beneath this, each IFI operates its own Shariah Committee. In cases of divergence between the rulings of the Shariah Advisory Council and an IFI's Shariah Committee, the decision of the Shariah Advisory Council takes precedence (Zainal Abidin et al., 2021), as mandated by Section 58 of the Central Bank Act 2009.

These mandatory rules became more stringent in subsequent years, which led to a primary change in Malaysian Islamic institution regulations concerning the Shariah Advisory Council and Shariah Committee. The Act officially declared the presence of dual (conventional and Islamic) financial practices in Malaysia and confirmed the Shariah Advisory Council's authority to determine Shariah in the Malaysian IFI context (Ali and Oseni, 2017). It also confers statutory power on the Shariah Advisory Council to monitor the Shariah compliance of IFI businesses and activities (Hasan et al., 2020). As such, all IFIs, arbitrators, and courts (in case of legal proceedings on Islamic finance) must acknowledge Shariah Advisory Council rulings (Zakaria, 2013). The ruling also takes precedence over any decision made by a Shariah Committee of an IFI in the event of contradictions. With these delegated powers, the Shariah Advisory Council serves as the exclusive supervisory authority responsible for issuing Shariah rulings for IFIs (Hasan et al., 2020; Zainal Abidin et al., 2021). Meanwhile, the Shariah Committees supplement the

supervision of Shariah compliance in IFIs. Both BNM GPS 1/2004 and guidelines for Shariah Committee 2009 subsequently evolved and were replaced with SGF 2010.

2.4.2 Shariah Governance Framework 2010 (SGF 2010)

BNM issued an SGF for IFIs in 2010, a year after the changes made to the Central Bank of Malaysia Act. This framework comprised the key principles of Shariah governance, such as the requirements of Shariah governance, the accountability of the board, Shariah Committee and management, the Shariah Committee's independence, competence, and confidentiality, and the introduction of Shariah control function (Shariah audit, Shariah review, Shariah risk management, and Shariah research) to ensure higher Shariah compliance in all IFIs with a workable Shariah governance policy. The SGF for IFIs supported the robust developments of the Malaysian Islamic finance industry. Although Malaysia led the way in institutionalising governance structures, policies, and processes to ensure full Shariah compliance in IFIs (Ab Ghani et al., 2024; Kamaruddin et al., 2020), the framework was later superseded by SGPD 2019 (see Section 2.4.4) to enhance Shariah governance practices, particularly concerning Shariah Committee terms and tenure, as well as Shariah control functions in IFIs.

2.4.3 Islamic Financial Services Act 2013 (IFSA 2013)

In Malaysia, Shariah governance attained a high level of efficiency by issuing the comprehensive IFSA in 2013 to replace IBA 1983. This Act is described as 'the culmination efforts of the legal framework of IFIs in Malaysia, in particular in the aspect of Shariah compliance' and entails the primary aspects of Shariah governance, compliance, and standards in Islamic finance (Laldin and Furqani, 2018). Focus is given to BNM's

authority and its oversight role in strengthening economic resilience and ensuring Shariah compliance (Ahmad and Ishak, 2021; Abd Aziz and Abd Ghadas, 2021). In relation to Shariah compliance, IFSA 2013 highlights the responsibility of IFIs in upholding adherence to Shariah law

IFSA 2013 defines adherence to Shariah as “a compliance with any ruling of the Shariah Advisory Council with respect to any particular aim and operation, business, affair, or activity”. The undertaking of any non-Shariah activities is strongly prohibited, with a maximum prison sentence of eight years or a fine of up to RM25 million or both to stringently ensure Shariah compliance in IFIs (Mohamed and Ibrahim, 2024; Nasir et al., 2020). IFSA 2013 mandates all IFIs to establish a Shariah Committee and sets the terms for the appointment of its members, outlining their responsibilities and criteria for disqualification. Accordingly, the BOD is required to appoint Shariah Committee members, subject to approval from BNM (Auwal, 2022).

Furthermore, IFSA 2013 places significant emphasis on key aspects of corporate governance, including board oversight, disclosure obligations, and audit practices (Isa et al., 2020). Beyond establishing a statutory framework for Shariah governance, the Act also regulates Shariah standards for IFIs. Specifically, Section 29 of this Act authorises BNM to establish Shariah standards on matters concerning IFI operations, based on the advice of the Shariah Advisory Council, to enforce its rulings (Mustafa and Rahman, 2023). As such, BNM, Shariah Advisory Council, International Shariah Research Academy, and other industry stakeholders collectively issued Shariah standards as key Islamic finance regulations. Any Shariah standards issued by BNM following this provision reflect statutory force that must be adhered by all IFIs.

2.4.4 Shariah Governance Policy Document 2019 (SGPD 2019)

The most recent development in Malaysian Shariah governance is the issuance of a new Shariah governance framework by BNM in 2019 to replace the 2010 version. This holistic and detailed framework entails several obligations that cause enforcement actions for non-compliance and other prescribed guidelines, the adoption of which is promoted (Ahmad and Ishak, 2021; Isa et al., 2020). For example, SGF 2010 placed significant emphasis on managing Shariah non-compliance risk, the composition and meetings of the Shariah Committee, and the cultural aspects of Shariah compliance, which influenced institutions' adherence to Shariah principles (Sori et al., 2020). To strengthen compliance with Shariah regulations, SGPD 2019 revised the Shariah control functions outlined in SGF 2010, streamlining them to encompass only Shariah compliance, Shariah audit, and Shariah risk management.

Although SGPD 2019 was yet to be released at the time of this study, the framework was duly reviewed and the feedback from IFIs was tabled in Exposure Draft 2017 (ED 2017). Further explanation on ED 2017 is in Chapter Five. The feedback highlighted a greater focus on incorporating Shariah governance activities into business and risk strategies (Rashid et al., 2024), granting the Board of Directors (BOD) increased authority and references compared to the SGF 2010. Interestingly, while both SGF 2010 and SGPD 2019 featured a dedicated section on transparency and disclosure, this aspect was absent in SGF 2010 (Naysary et al., 2020; Kamaruddin et al., 2020). The updated framework mandates a more detailed explanation of the processes involved in forming opinions within the Shariah Committee.

This guideline also offers a precise definition of Shariah non-compliance risk and outlines the roles of Shariah Committee members, the Chairman, and the Secretariat to the Shariah Committee, served to assist Shariah Committee's roles and functions. However, the voting requirement for decision-making was eased from a two-thirds majority to a 'simple majority' (Naysary et al., 2020). Unlike previous regulations, SGPD 2019

mandates that at least one Shariah Committee member must have expertise in Islamic banking and finance (Naysary et al., 2020). Additionally, the guideline has reduced the minimum number of Shariah Committee members required for Islamic windows or foreign branches in Malaysia from five to three (Yusof and Ali, 2021; Naysary et al., 2020). A new rule was imposed to ensure that the Shariah Committee services for a specific IFI do not exceed nine years.



Table 2.1 Summary of the Shariah Governance Development

Phase	Focus	Key Features
GPS 1/2004 (Guidelines on the Governance of Shariah Committee)	Establishing fundamental rules, regulations, and procedures.	- Defined roles and responsibilities of the Shariah Committee. - Established working relationships between the Shariah Advisory Council and Shariah Committee. - Laid the foundation for IFIs' (Islamic Financial Institutions) duties regarding Shariah compliance.
SGF 2010 (Shariah Governance Framework)	Strengthening governance structures and processes.	- Introduced a structured governance framework. - Provided clear guidelines for Shariah Committee, board, and management. - Included elements of Shariah review, audit, risk management, and research.
IFSA 2013 (Islamic Financial Services Act)	Legal enforcement and stricter compliance mechanisms	- Required effective establishment of the Shariah Committee based on qualifications and appointment processes. - Mandated appointment of both external (institution-level) and internal (bank-level) auditors for Shariah compliance. - Introduced legal penalties for non-compliance.
SGPD 2019 (Shariah Governance Policy Document)	Strengthening decision-making and risk management	- Expanded roles of the board, senior management, and key institutional members. - Reinforced decision-making functions related to Shariah compliance. - Introduced clearer control functions for managing Shariah non-compliance risks.

Source: Bank Negara Malaysia

2.5 SHARIAH GOVERNANCE PRACTICES IN MALAYSIAN ISLAMIC BANKS

Rezaee (2009) highlighted a change in the definition of internal audit, transitioning its role from serving the management to serving the organisation (Turetken et al., 2020). Furthermore, the integral component of corporate governance as a distinctive value-added function has altered internal auditors' role from offering the management objective input and feedback to explicitly engaging in the decision-making process (Muhamad, 2011). Some of the works on Islamic auditing (Shafii et al., 2010; Ni and Mukhlisin, 2012) are conceptual. Sufficiency standards for Shariah auditing practices (Kasim and Mohd Sanusi, 2013; Kasim et al., 2013), future Islamic auditors' perception (Kasim et al., 2009; Zurina et al., 2014), knowledge of Shariah audit (Rammal and Parker, 2010; Yaacob and Donglah, 2012; Yaacob et al., 2013), and Shariah adherence (Grais and Pellegrini, 2006; Mizushima, 2014) were some of the issues highlighted in Islamic auditing.

Mizushima's (2014) study on the implementation of Shariah tenets discovered that most empirical works on Shariah governance practices in Islamic banks emphasised high Shariah compliance, which left research concerning Shariah non-compliance relatively under-examined. Shafii et al. (2010) investigated the appropriateness of Shariah non-compliance among Malaysian financial institutions and found that Shariah compliance audit significantly alleviated non-compliance risks. The information flow derived from audit activities conducted across various operational aspects, including the documentation, reporting, delegation of duties, and control functions involved in IFI operations, could instigate non-compliance without adequate guidelines (Abdulrahman et al., 2024; Karbhari et al., 2024).

The new legislation, IFSA 2013, received positive feedback and was deemed a landmark law following its enforcement. Notably, the Act enhanced Malaysia's standing as the leading global hub for Islamic finance (Hassan et al., 2021) in the world. Regardless, Sundram (2013) argued on the failure of this legislation to significantly impact the Shariah

governance system within Malaysian Islamic banks. Some scholars perceived the Act as too general with inadequate information and auditing practices following industrial complexities and dynamism (Kasim et al., 2013; Yussof, 2013).

A Shariah review officer in Muhamad's (2015) research indicated that authorities who are responsible for this control function should not take charge of Shariah audit. The segregation of duties must be clear for each different function. Furthermore, the practices heavily depend on Islamic banks' operational size. The drawbacks of Shariah governance practices can be addressed by increasing the commitment to adhere to regulations and frameworks with a standard operational procedure and distinctive functions based on roles, responsibilities, and code of conduct (Hasan, 2011).

A dynamic Shariah audit and Shariah review system (Alamer, 2022) necessitates periodic adaptations for the purpose of enhancing and complementing the environment of rules and routines for effective Shariah governance. Besar et al. (2009) examined the quality of Shariah review process in selected Malaysian Islamic banks and highlighted the need for more methodological approaches to ensure the objective fulfilment of responsibilities. This finding is parallel with the principles of Shariah governance, which renders it compulsory for IFIs to periodically perform Shariah reviews and Shariah audits.

Matters involving Shariah governance were initially addressed using BNM guidelines on the Shariah Committee (BNM GPS 1) during the infancy of Islamic banks in Malaysia. Issued in December 2004, BNM GPS 1 was the inaugural guideline on Shariah Committee governance, outlining the principles, frameworks, and protocols for its establishment, delineate its role, scope of work and responsibilities, and define the relationships along with the coordination framework linking the Shariah Committee and the Shariah Advisory Council of BNM. During this period, the Shariah Committee remained the sole governance structure responsible for ensuring Shariah compliance in Islamic banks (Isa and Lee, 2020).

BNM subsequently recommended a more functional means to ensure that the Malaysian Islamic banks operate under Shariah principles in the form of SGF 2010. Effective from 1 January 2011, this framework resulted from the realisation that high Shariah compliance increases the public and financial market's confidence in Islamic banks' credibility. SGF 2010 served to enhance the role of the board, Shariah Committee, and management regarding Shariah matters (Haniffa, 2010; Lahsasna et al., 2013), including enhancing key internal Shariah control functions to exercise Shariah compliance and research functions. Hence, SGF 2010 has altered the past Shariah governance structure based on the composition of Shariah Committee members, their minimum qualification, and the procedures and processes of Shariah review, Shariah audit, Shariah risk management, and Shariah research (Muneeza 2014). In other words, the framework outlines Islamic banks' Shariah governance structures, processes, and arrangements to ensure Shariah compliance in institutional operations and business activities (Sulaiman et al., 2015). The progression of Shariah governance in Malaysia is subsequently mirrored in the IFSA 2013, which came into effect on 30 June 2013. This has introduced positive reforms and formalised several Shariah governance principles as statutory obligations (Muneeza, 2014). It is anticipated that the practical implementation and outcomes of the changes outlined in IFSA 2013 will become evident (Saba et al., 2021).

The Shariah governance structure consists of two key elements: a centralised Shariah Advisory Council within Bank Negara Malaysia (BNM) and a Shariah Committee at the level of Islamic banks (Abd Aziz and Abd Ghadas, 2021). The Shariah Advisory Council is authorised to ascertain Shariah on financial matters involving Islamic business practices, operations, or transactions, while the Shariah Committee serves to direct Islamic banks on Shariah matters (Zainal Abidin et al., 2021). Following the framework model, the BOD, the board risk management committee, the board audit committee, the board management, and the Shariah Committee are key stakeholders in Shariah governance that uphold Shariah as a key principle in Islamic banks. Additionally, the framework highlights four internal Shariah control functions: Shariah review, Shariah audit, Shariah risk management, and Shariah research that strongly support the institutional member's roles

and functions and ensure their timely fulfilment of duties (Sulaiman et al., 2015; Hasan, 2011).

2.5.1 Shariah Review Function

As the second layer of defense, Shariah review is a pivotal function under SGF 2010 that periodically assesses and ensures Shariah adherence in the activities and operations of IFIs through a competent Shariah officer to mitigate Shariah non-compliance risks. Ongoing assessments guarantee full IFI adherence to Shariah principles. Deemed as a novel mechanism for ensuring Shariah compliance under the SGF 2010 (Yasoa et al., 2022) under SGF 2010, Shariah review is performed following Shariah auditing and Shariah risk oversight. Despite the possibility of a reiteration between both functions, Shariah review consistently complements Shariah audit and fills the gap when the audit is not carried out. (Kamaruddin et al., 2024). Shariah officers with Shariah qualifications or sufficient knowledge of the principles of Islamic jurisprudence (Usul Fiqh) and Islamic transactional law (Fiqh Muamalat) are fundamental branches of Shariah responsible for assessing the function. A Shariah review (SGF 2010) is conducted based on the following prerequisites:

- i. Examination and evaluation of IFI activities and operations Shariah compliance levels.
- ii. Remedial measures to address Shariah non-compliance.
- iii. One of the control mechanisms to prevent recurrences of Shariah non-compliance.

Shariah review encompasses IFIs' business operations, such as the end-to-end product development process, which begins from product structuring to product offering. This process includes, but is not limited to, specific aspects (SGF 2010):

- i. Planning the Shariah review programme, which includes the objectives, scope, reporting, rectification, follow-up actions, and their implementation.
- ii. Documentation of Shariah review processes.
- iii. Communicating the Shariah review outcome and notifying Shariah non-compliance to the Shariah Committee and the management.
- iv. Rectifying Shariah non-compliance to prevent recurrences in the future.

Under SGF 2010, the Shariah review process entails planning and implementing the Shariah review procedures, documenting conclusions, and reporting. This function involves direct reporting to the Shariah Committee and administrative management.

As defined by SGPD 2019, Shariah review performs ongoing evaluation of the compliance in IFI operations, business, affairs, and activities with Shariah. BNM has added relevant responsibilities under SGPD 2019:

- i. Regular reporting to the board, Shariah Committee, and senior management regarding Shariah non-compliance matters and findings.
- ii. Notify and update the board, Shariah Committee, and senior management about the most recent changes in legal and regulatory matters. Islamic finance requirements, specifically regarding the issuance of Shariah Advisory Council rulings.
- iii. Ensure that IFI offers are provided with optimal training and instruction on pertinent Shariah principles governing the operations, business, affairs, and activities of IFIs.

In line with SGPD 2019, competent Shariah officers conducting Shariah reviews must have a thorough understanding of relevant Shariah requirements applicable to Islamic financial operations (Yasoa et al., 2022). These additional prerequisites underscore the significance of gradually enhancing Shariah governance practices.

2.5.2 Shariah Risk Management Function

As defined by BNM under SGF 2010, Shariah risk management is “a function to systematically identify, measure, monitor, and control Shariah non-compliance risks to prevent any potential non-compliance events”. Likewise, SGPD 2019 denotes Shariah risk management as “a function that systematically identifies, measures, monitors, and reports Shariah non-compliance risks in the operations, business, affairs, and activities of the Islamic financial institutions”. This evolution in Shariah governance emphasises Shariah risk management as IFIs’ compliance and control functions. A separate and independent function in Shariah risk management can manage Shariah non-compliance risks and alleviate potential Shariah non-compliance issues (Kasim et al., 2013). As a second line defense and a systematic means of addressing Shariah non-compliance risks facilitates Islamic banks to continue their operations and activities (Lahsasna, 2014). For example, Shariah risk management officers must carry out and provide monthly updates and follow-ups to the Shariah Division and, ultimately, report the status of the rectification plan to the Shariah Committee.

An integration of the Shariah risk management with the institution ensures compliance within IFIs and associated businesses. This function is often executed by Shariah officers with expertise in Shariah requirements and practices. Essentially, Shariah risk management officers will directly report to the risk management committee, BOD, and management via the Shariah Committee. The Shariah risk management function under SGF 2010 involves the following aspects:

- i. To facilitate the process of identifying, measuring, controlling, and monitoring Shariah non-compliance risks inherent in IFI operations and activities:
 - a. Ascertaining and understanding inherent Shariah non-compliance risks in IFIs by considering existing controls and their effectiveness in reducing such risks.

- b. Measuring the potential impact of such risks to IFIs following the historical and actual de-recognition of income generated from Shariah non-compliant activities.
 - c. Monitoring Shariah non-compliance risks for optimal risk management. A report on Shariah non-compliance risk indicators will be periodically escalated to the board, Shariah Committee, and management.
 - d. Executing controls by tracking non-recognisable income from Shariah non-compliant activities and assessing the possible occurrence of similar cases to prevent recurrences. IFIs may assess potential non-recognisable profits as eligible following historical reviews and potential Shariah non-compliance areas.
- ii. To formulate and propose relevant Shariah non-compliance risk management policies and guidelines.
 - iii. To develop and implement Shariah non-compliance risk awareness processes in IFIs.

SGPD 2019 also highlighted the monitoring of Shariah non-compliance risk vulnerabilities and the effectiveness of risk mitigation instruments to reduce Shariah non-compliance in IFIs as additional responsibilities of Shariah risk management (Kamaruddin et al., 2020). This function entails reporting Shariah non-compliance risk exposures to the board, Shariah Committee, and senior management. Additionally, Shariah risk management must methodologically contest decisions that increase Shariah non-compliance risks. The Chief Risk Officer is accountable for this function, which is an integral part of the IFIs' overall risk management framework. The IFI must ensure that the Shariah officers assessing this function have adequate knowledge of Shariah requirements that are applicable to Islamic financial businesses.

The processes of Shariah risk management function involve identifying, measuring, monitoring, reporting, and controlling risks. An institution's Shariah non-compliance risk can be effectively managed through optimal governance practices within the Shariah risk

management function (Ariffin, 2022). Subsequently, IFI activities and operations will consistently adhere to Shariah tenets.

2.5.3 Shariah Audit Function

As stated under SGF 2010, Shariah audit involves periodical and independent assessments and provides objective assurance to enhance and improve the adherence level of IFI business operations while ensuring a robust internal control system for Shariah compliance (Hanefah et al., 2020). As Shariah compliance is the backbone of IFI operations (Muneeza, 2014; Ismail and Tohirin, 2010), SGF 2010 requires more depth and integration (Kasim et al., 2013). The research by Haniffa (2010) and Yaacob (2012), which was performed during the infancy of SGF 2010, defined Shariah audit as the assessment of Islamic banks' Shariah compliance, financial statements, and other operational components that are subject to compliance risk. The broad scope of Shariah audit includes products, technology, operational procedures, the parties involved, and other activities that need compliance with Shariah principles (Yasoa et al., 2022; Isa et al., 2020). These inclusions render the industry a complex and dynamic phenomenon (Kasim et al., 2013).

As in the third line of defense, Shariah audit offers independent assurance of IFIs' Shariah compliance (Yasoa et al., 2022; Isa et al., 2020). Under SGF 2010, Shariah audit denotes "an independent and periodical assessment, conducted from time to time to provide objective assurance designed to add value and improve the degree of compliance of the IFIs activities and operations". Meanwhile, BNM's SGPD 2019 denotes Shariah audit as "a function that provides an independent assessment on the quality and effectiveness of the IFI's internal control, risk management systems, governance processes, as well as the overall compliance of the IFI's operations, business, affairs, and activities with Shariah". This function is a monitoring tool to ensure an effective internal control system for Shariah compliance (Isa et al., 2020).

Under SGF 2010, Shariah audit includes the following aspects of IFI business operations and activities:

- i. IFIs financial statement audit.
- ii. Compliance audit on institutional structure, people, process, and information technology application systems.
- iii. Review of Shariah governance process adequacy.

The Shariah audit process enables IFIs to assess the implementation of a strong internal control system for Shariah compliance. It includes, but is not confined to the following factors:

- i. Understanding IFIs' business for a better scoping of audit exercise, such as activities' audibility and relevance.
- ii. Establishing a holistic internal audit programme or plan that includes objectives, scope, personnel assignment, sampling, control, duration, and developing optimal audit processes, policies, and procedures in IFI operations.
- iii. Making reference to pertinent sources, including published Shariah Advisory Council rulings, Shariah Committee decisions, fatwas, guidelines, Shariah audit results, and internal Shariah checklist.
- iv. Periodically conducting Shariah audits.
- v. Communicating any assessment outcomes derived from the Shariah audit to the board audit committee and Shariah Committee.
- vi. Proposing rectification measures and follow-ups on their implementation by IFIs.

Shariah audit entails planning, execution, reporting, and follow-up. As a vital stage in developing an audit methodology, the planning phase assesses the risk profile and vulnerabilities of each auditable area (Alam et al., 2023), generates a plan for auditing to perform the assignments, and establishes documented audit programmes that assist Shariah auditors in collecting data, auditing methods, and audit assessments (Khatib et al., 2022).

Meanwhile, the execution phase entails the (i) auditing of contracts and standard operating procedures, (ii) reports involving circulars, minutes of meetings, operating and financial reports, policies, and guidelines (Ab Ghani et al., 2022), (iii) observation of processes and operations, and (iv) assessment of internal control system adequacy regarding Shariah compliance to assess the senior management's Shariah-related awareness, commitment, and compliance control procedures. Working papers and audit records are key components in this phase. A working paper aims to systematically document audit work, record the information elicited to support the audit outcomes, and draw an audit conclusion.

The reporting phase involves reporting the audit findings on non-compliance issues and audit recommendations, such as the corrective or preventive and rectification measures proposed to the board and Shariah Committee via audit report. In the follow-up phase, Shariah auditors follow up on the implementation and rectification based on Shariah audit outcomes to reduce Shariah non-compliance risks. It is deemed crucial to effectively plan, perform, and communicate the Shariah audit results. As a control function, Shariah audit ensures Shariah compliance to strengthen internal institutional control and provide optimal Shariah governance practices and Shariah risk management (Ab Ghani et al., 2019).

2.5.4 Shariah Research Function

Shariah research function implies the performance of empirical works on Shariah issues, such as the provision of daily guidance and consultation to the relevant parties, including those engaged in product development (Kamaruddin et al., 2020). This internal unit facilitates the approval process, conducts in-depth research on Shariah-related matters, and advises relevant parties based on Shariah Committee's decisions (BNM, 2010). Shariah research and Secretariat, which execute Shariah Committee-related administrative duties, significantly influence these aspects (Omar and Hassan, 2019). The Secretariat is

accountable for coordinating Shariah Committee meetings, compiling proposal papers, disseminating Shariah Committee decisions, conducting extensive research on Shariah non-compliance events, and forming part of the Shariah Committee presentation, including novel products that must be reviewed (SGF, 2010).

Shariah research function includes competent Shariah officers who execute the pre-approval product process, research, vet submission issues, and manage administrative and secretarial tasks related to the Shariah Committee (Hassan, 2015). They are also responsible for institutionalising robust Shariah control. As stated by SGF 2010, the presence of Secretariat functions ensures the discussion and dissemination of Shariah-related issues (Noor and Ismail, 2021). A Secretariat is established in each IFI to serve the Shariah Committee by interacting with relevant parties involved in deliberating on Shariah Committee-highlighted issues (Zainal Abidin et al., 2021). Regardless, SGPD 2019 omitted the Shariah research function from its policy document to be consolidated under Shariah Division. The Chief Shariah Division as a Secretariat offer operational support to ensure smooth operation of the Shariah Committee (Alam, 2022) for optimal Shariah non-compliance risk management.

2.5.5 Shariah Governance Practices and Challenges

BNM introduced IFSA 2013 following the development and challenges of the Islamic finance industry (Salim and Hassan, 2022). Thus, Islamic banks' existing Shariah governance practices became mandatory under IFSA 2013 (Muneeza, 2014). As the key regulatory objective, Shariah compliance aims to encourage and monitor stability and ensure adherence to Islamic financial services and operations (Hassan, 2014). In line with IFSA 2013, all Islamic banks must adhere to Shariah rulings via adherence to BNM's Shariah Advisory Council ruling concerning aim, operation, business, affair, and activity. The Act stipulates extensive statutory responsibilities for the BOD, the Shariah Committee,

and the management of Takaful operators to uphold a Shariah-compliant status (Kamaruddin et al., 2024). Essentially, IFSA 2013 supports the BNM-issued SGF 2010. Such BNM-issued guidelines are conferred statutory power under Section 29 of IFSA 2013. Pursuant to Subsection 29(2) of IFSA 2013, SGF 2010 has been elevated to a mandatory standard for all IFIs. This move is intended to tighten Shariah governance and ensure that all operations and business activities of IFIs are strictly adherent to Shariah principles (BNM, 2010).

SGF 2010 places much emphasis to encourage Islamic banks to develop Shariah compliance functions including Shariah review, Shariah audit, Shariah risk management, and Shariah research. The roles and duties of every director, officer, or Shariah Committee member in an institution are outlined in Section 29(5) of IFSA 2013. Hence, such institutions would adhere to internal policies and procedures for implementing the BNM-issued standards under Section 29(1) and (2) (Hasan et al., 2021). In line with Section 29(6) of IFSA 2013, Islamic banks' non-compliance with SGF requirements would expose (Hobvi et al., 2022) the financial institution and its officers to severe statutory penalties. The Shariah Committee is assisted by Shariah control functions to guarantee Shariah compliance leads to effective Shariah governance practices. As the failure of Shariah governance practices implies the failure of Islamic banks, the significance of optimality is undeniable (Muhamad et al., 2015). Principle 7 of Shariah governance further recapitulates the necessity for a robust institutional structure of Shariah compliance functions, including Shariah review, Shariah audit, Shariah risk management, and Shariah research capacity to effectively implement Shariah governance. The infrastructure of the Shariah audit process and the competence of institutional members are necessary for Islamic bank development (Yussof, 2013). Abdul Rahman (2011) discussed the influence of the International Shariah Research Academy (ISRA) on Islamic finance, aiming to support BNM-led Shariah governance by developing and issuing the Shariah audit framework, which is effectively implemented via collaborations with IFIs.

IFSA 2013 fulfilled the requirements outlined in the policy documents when BNM issued SGPD 2019 to replace SGF 2010. Henceforth, IFIs must adhere to any standard, obligation, prerequisite, specification, guideline, condition, as well as explanatory, additional, and transitional provisions labelled as “S” in the policy document. Non-compliance may lead to enforcement actions. Meanwhile, any requirements implied as “G” in the policy documents become IFI guidelines, which entail declaration or details that encourage mutual understanding and guidance or suggestion that benefit the institutions. Shariah officers can accomplish their roles and functions with these points of reference, albeit with challenges in attaining the standard Shariah governance objective in an institution following overly general guidelines in the policy document. These officers must discover the most workable practices and mechanisms while concurrently ensuring the implementation of Shariah compliance.

The policy document requirements outline the banks’ anticipation for optimal Shariah governance practices, which are seamlessly incorporated into IFIs’ business and risk strategies. This integration elevates the scale and complexity of IFIs and facilitates latest policy developments in governance, adherence, and risk management (Ali and Ifraq, 2024). Specifically, the document stipulates (1) supervision accountabilities on the board, Shariah Committee, and other key institutional members engaged in implementing Shariah governance, (2) the Shariah Committee’s objectivity in reinforcing an effective decision-making process, and (3) the effectiveness of internal control functions in managing Shariah non-compliance risk management (Nazmi and Hssan, 2024; Isa et al., 2022; Yasoa et al., 2022; Zainal Abidin et al., 2021).

Relevant studies on Shariah compliance audit issues have reported factors like independence, confidentiality, qualification, inconsistency of pronouncements, Shariah resolutions, audit scope and timing, Shariah audit evidence, audit programmes and procedures, and an independent regulatory body (Grais and Pellegrini, 2006; Abdul Rahman, 2008; Mulyany, 2008; Kasim et al., 2009; Yaacob and Donglah, 2012; Arwani, 2018; Haridan et al., 2018). In the Kingdom of Bahrain, Khalid’s (2017) exploration of the

attributes affecting internal Shariah audit effectiveness disclosed the positive correlation between competence (professional qualification and expertise) and job performance (planning, involvement, and sufficient information) and Shariah audit effectiveness. Meanwhile, Arwani (2018) reported that the Shariah board's present role focuses on compliance with rules, procedures, and completeness of the Shariah working paper. Hence, IFI can easily conform to the established rules and procedures with added value or by attaining the Shariah purpose. Additionally, Shariah audit is confined to determining the degree of compliance with rules and procedures. Abdul Rahman (2008) indicated that Shariah compliance is principally internal. For example, an internal auditor is required to audit an institution's Shariah compliance.

Despite increasing stakeholders' confidence and trust levels in IFIs, Chapra and Ahmed, (2012) highlighted challenges in terms of confidentiality and lack of expertise in both Shariah and financial skills. Shariah audit framework, work scope, and Shariah auditors' qualification and independence were thoroughly investigated by Kasim (2009), who identified a gap between the theory and practice of Shariah audit in IFIs. Similarly, Grais and Pellegrini (2006) proposed a Shariah audit framework to broaden the Shariah audit scope and regularly perform independent Shariah audits.

Shariah review officers are authorised to observe whether an activity is Shariah-compliant but have no power to choose, alter, or halt it. In this instance, IFIs require an authority that can review and promptly change and improve non-Shariah-compliant activities. According to Afifi et al., (2019), these figures of authority must possess the knowledge and practical competence to directly encounter issues and gain a holistic understanding of the situation and condition. The Shariah compliance review function must collaborate with the Shariah audit and the Shariah risk management to accommodate general Shariah-compliant business practices related to financial activities (Sabri et al., 2023). On practical grounds, the knowledge gap and paucity of Shariah review authorities significantly hamper Shariah compliance (Bahari and Baharudin, 2016). Typically, risk assessment and analysis are deemed challenging tasks. The management should promptly

address risks that require corrective measures post-analysis. Abdul Rahman et al., (2012) highlighted the need for Malaysian Islamic banks to optimise their risk management practices for industrial relevance and sustainability in a dynamic setting. For example, the management should understand the system's complexity, recognise operational risks, identify appropriate risk-mitigation techniques, and implement workable policies and procedures to remain sustainable. Khan and Ahmed, (2001) claimed that adequate internal control can be exemplified through a system that promptly addresses the risks resulting from environmental changes by incorporating a functional disaster contingency plan, acknowledging internal auditor reviews, and safely storing software and data files. Internal control mechanisms must be continuously monitored post-implementation to reduce risks and mismanagement and boost market confidence. Additionally, any Shariah non-compliance incidents should be duly measured, reported, and responded to.

2.6 SUMMARY

Overall, the regulatory and supervisory practices of Malaysian IFIs underpin a holistic SGF with centralised supervision. As a centralised body that ensures Shariah compliance in Malaysian IFIs, the Shariah Advisory Council is responsible for issuing standardised Shariah rulings publicly for all IFIs and the capital market. Meanwhile, the Shariah Committee consults the Shariah Advisory Council rulings on any Shariah issues to make internal decisions within IFIs. Shariah governance has been proven beneficial for promoting standardisation and harmonisation within the Malaysian Islamic finance industry. Such uniformity mitigates risks to Shariah Committee independence and potential conflicts of interest.

Nevertheless, these time-consuming practices hinder the establishment of a dynamic environment, particularly in the wake of a novel Shariah ruling. Requiring Malaysian IFIs to consult the centralised board for issuing a Shariah ruling and await its

decision may be time-consuming and costly, particularly for institutions that strive to compete domestically and globally in Islamic finance. Notably, centralised practices in Malaysia can utilise the Shariah Committee's advice to address compliance issues in two instances: (i) if the IFI seeks a Shariah ruling from the Shariah Advisory Council, and (ii) if the IFI applies to BNM for authorisation to introduce a new product offer. In this vein, the Shariah Committee can examine Shariah-related matters in their respective institutions and report to the centralised board, which will consider their opinion before issuing its final ruling.

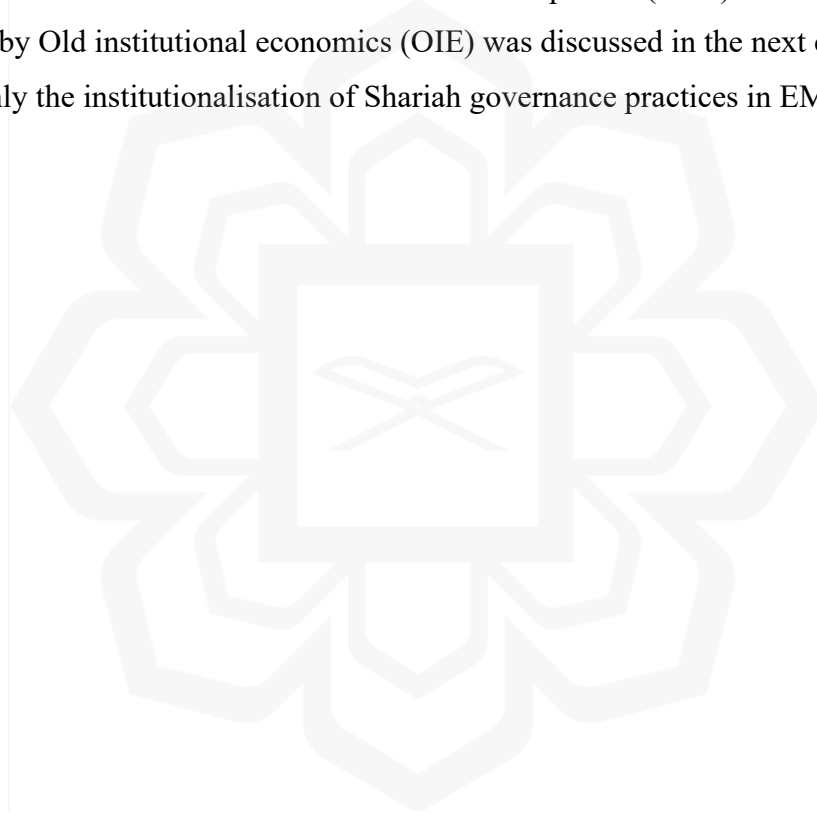
In Malaysia, Shariah compliance denotes IFIs' adherence to Shariah Advisory Council rulings. Possible infringements are deemed Shariah non-compliant and will be severely penalised. Local Shariah governance facilitates IFIs to mitigate Shariah governance practises issues and attain Shariah compliance, even if in a different jurisdiction applies an alternative approach or Shariah rulings and standards. In interpreting Shariah principles, such contradictions are permissible and may arise with new and contemporary issues, as well as between different societies, due to *ijtihad*.

Shariah governance also resolved Shariah experts' multiple Shariah Committee membership by limiting one Shariah member to one Shariah Committee in a similar sector. The centralised Shariah governance practices in Malaysia strengthened the enforcement clauses outline in the law. As previously mentioned, IFSA 2013 authorised BNM to penalise any IFIs that condone criminal and Shariah non-compliance activities. Moreover, BNM can issue compliance directive or accept legally binding orders. These implications motivate financial institutions to undertake the necessary measures to alleviate identified risks.

Generally, Shariah governance practices have significantly improved following the enforcements of SGF 2010, IFSA 2013, and SGPD 2019 owing to enhancements in the institutional structure, reporting lines, disclosure, accountability, and responsibility.

Regarding Shariah compliance, Shafii et al., (2013) perceived that expanding Shariah Committee's roles and responsibilities and incorporating Shariah functions would add value to Islamic bank operations.

The following chapter introduces institutional theory as the guiding theoretical framework for this study. Institutional theory offers valuable insights into how regulatory pressures and normative expectations influence the adoption and practice of Shariah governance within Islamic banks. Burns and Scapens's (2000) framework which was inspired by Old institutional economics (OIE) was discussed in the next chapter to explain thoroughly the institutionalisation of Shariah governance practices in EMERALD.



CHAPTER THREE

INSTITUTIONAL THEORY ON SHARIAH GOVERNANCE PRACTICES

3.1 INTRODUCTION

This chapter presents the institutional theory, current study framework, NIS, and key components of Burns and Scapens's (2000) framework, which was inspired by OIE. Both OIE and NIS are further elaborated on their association with the institutional and economic elements underlying this study. Furthermore, this chapter provides an overview of institutional theory, explores resistance to change, and examines the dichotomies within the institutional framework following Burns and Scapens's (2000) framework and Dillard et al. (2004), the theoretical framework was structured to attain the research objective.

3.2 INSTITUTIONAL THEORY

Theories enable individuals to view and internalise the performance of a study, analyse the situation, and synthesise it as an outcome. The present study seeks to provide a rationale for the institutionalisation of Shariah governance within an Islamic bank via the institutional theory, which has been widely employed to explain individual and institutional actions. From a scholarly perspective, institutionalisation is a key determinant in institutional studies. Essentially, this empirical work provides a sound understanding of how (i) institutions are established, transformed, and deconstructed and (ii) Shariah governance is institutionalised under this theory.

The institutional theory primarily concerns how an institution interacts with its environment, the implications of social expectations on the institution, and the integration of these expectations with institutional practices, including rules and routines (Dillard et al., 2004). Key institutionalisation entities of rules, norms, or behaviours exist, change, or stabilise over time (Ahmed and Scapens, 2000; Burns and Scapens, 2000; Scapens, 1994). Studies on the institutional theory are dichotomised into three main streams: New Institutional Economics (NIE) (North, 1990), New Institutional Society (NIS) (Meyer and Rowan, 1977; Moll et al., 2006), and Old Institutional Economics (OIE) (Burns and Scapens, 2000). Following Burns and Scapens (2000), the institutional theory serves as the underpinning theoretical basis to analyse Shariah governance institutionalisation in Islamic banks. Inspired by OIE, Burns and Scapens (2000) indicated that Shariah control functions operate as a set of regulation. Meanwhile, routines are accepted in existing institutions and the norms and values they uphold (environment).

Burns and Scapens (2000) utilised institutions, rules, and routines as key concepts in their institutional framework. No universal definition of the concept exists in OIE following the ambiguities associated with defining an institution. As defined by Burns and Scapens (2000), an institution is “the shared taken-for-granted assumptions, which identify categories of human members and their appropriate activities and relationships”. Rules and routines are clearly distinguished in the institutional framework. Rules, which are defined in the formal statements, manuals, and directives of an institution, are seldom amended. Such formal procedures and guidelines stipulate how a specific task should be executed (Burns and Scapens, 2000). Contrarily, routines imply day-to-day institutional activities that characterise actual task performance.

In reality, groups of individuals adopt cultures and methods that are disseminated among institutional members and reproduced over time as routines. Emergent routines that are gradually embraced at the institutional level and deemed undisputable become institutionalised and are less resistant to novel issues and challenges (Burns and Scapens, 2000). An institution operates at the economic, political, institutional field and intra-

institutional levels (Wanderley et al., 2011). Institutionalisation results from the pressure to change at economic and political levels, followed by the institutional field and intra-institutional levels (Wanderley et al., 2011). At the intra-institutional level, institutionalisation occurs in the institutional realm and realm of action and gradually changes current rules and routines (Burns and Scapens, 2000). Based on the Burns and Scapens' (2000) framework, the intra-institutional realm and the realm of actions are interconnected through rules and routines.

The systematic literature review by Karbhari et al., (2020) found that applying the institutional theory in Shariah governance practices could generate guidelines, strategies, and procedures for EMERALD to effectively conduct, monitor, and control their social, religious, and accountability obligations within the institution. This theory could relevantly explain the institutionalisation of Shariah governance practices in Islamic banks. It is deemed vital for EMERALD to institutionalise Shariah governance practices for high Shariah compliance and public confidence in the industry. Next section further discussed the main concepts of institutional theory.

3.3 MAIN CONCEPTS OF THE INSTITUTIONAL THEORY

This section discusses on the main concepts of institutional theory, focusing on the three dominant perspectives of NIE, NIS, and OIE that offer insights into institutional structures, behaviour, and the processes through which practices become institutionalised.

3.3.1 New Institutional Economics

New Institutional Economics (NIE) prioritises the institutional role in economic activities. From NIE researchers' perspective, property rights, contracts, and governmental roles can significantly influence economic growth (North, 1990). Transaction costs, a key NIE concept, are linked to goods and service exchange. NIE scholars contended that institutions potentially reduce transaction costs through a framework for economic activity. For example, property rights can mitigate the costs incurred from enforcing contracts, while governmental roles can provide economic activities with a stable and predictable environment (Williamson, 1985).

3.3.2 New Institutional Sociology

Pioneered by Selznick, the New Institutional Sociology (NIS) perceives institutional members' behaviour as motivated by social forces as opposed to New Institutional Economics (Moll et al., 2006). In this vein, external environmental factors led institutionalisation to seek legitimacy at the primary institutional level (such as politics, economy, or the regulatory bodies) by complying with rules and norms that are recognised by society or relevant establishments.

Institutional isomorphism is defined as the explanation of rules, symbols, and beliefs that institutions adhere to for societal acceptance. It explains the mechanism through which institutions adopt external factors under New Institutional Sociology (Kamal Hassan, 2005). Isomorphism is a limiting process that coerces institutions to resemble others within similar environmental conditions (DiMaggio and Powell, 1983). This element is categorised into coercive, mimetic, and normative isomorphism (DiMaggio and Powell, 1983). Coercive isomorphism results from the formal and informal pressures caused by dependent institutions, whereas mimetic isomorphism occurs when an institution imitates

a successful target group's rules and routines (DiMaggio and Powell, 1983). Meanwhile, normative isomorphism occurs when the knowledge explained through educational and professional training processes pressures institutional rules and routines (Kamal Hassan, 2005).

Coercive isomorphism appears when an institution adopts certain structures or practices due to external pressures from formal authorities or regulatory bodies (Nawaz and Guribie, 2022). Government regulations can coerce an institution into adopting new procedures (Hashmi, 2023). For example, an institution might alter their structures to align with legal requirements or react to changes in public values, even when such alterations do not necessarily lead to increased efficiency. This adjustment indicates to stakeholders that the institution is attuned to establish societal expectations, thereby access to resources and enhancing legitimacy (Mohd Alwi, 2009).

Mimetic isomorphism refers to the tendency of an institutions imitate the practices of successful or prestigious institutions in their field (Dua, 2022). This is due to uncertainty, poorly understood technologies or uncertain goals (DiMaggio and Powel, 2000). The best and safer ways are to follow others in similar situations when institutions are faced with environmental ambiguity. There is assurance in following what other institutions are doing.

Normative isomorphism takes place when institutions conform to prevailing social norms, professional standards, and values within their institutional environment (Jaja et al., 2019; Teodoro, 2014). The influence of the professions, experiences, specialised training and knowledge could lead to this isomorphism. This isomorphism fosters standardisation in structures and behaviours, not because of coercion or imitation, but owed to the internalisation of professional norms and the pursuit of legitimacy within institutional fields.

3.3.3 Old Institutional Economic

First applied in the 1990s, Old Institutional Economic (OIE) is one of the three approaches underpinning the institutional theory, which provides an interaction between the institution and economic and social actions (Scapens, 1994; Burns, 1997, 2000; Burns and Scapens, 2000; Sulaiman and Ramli, 2008). Burns and Scapens' (2000) framework is a guideline for examining accounting change in institutions. More researchers have since elicited insights from OIE to justify the processes of management accounting change (Soin et al., 2002; Ribeiro and Scapens, 2004; Abu Kasim, 2004; Siti-Nabiha and Scapens, 2005; Busco et al., 2006, Lukka, 2007).

The consideration of economic systems from an evolutionary viewpoint is a key OIE component (Hodgson, 1998). Nelson and Winter (1982) expanded the existing OIE literature by underscoring the significance of culture and routines in the evolution of institutional practices. OIE scholars emphasise evolution, change, and practical issues, which provide a sound understanding of an institution that influences its internal life at micro or intra-institutional levels and examine the internal pressures and limitations affecting institutionalisation. In other words, OIE concerns the internal institutional forces or pressures that gradually catalysed change and stability (Burns and Scapens, 2000; Scapens, 2006) and provided insights into processes of change and resistance to change.

Insights on OIE explained how the Shariah compliance culture and institutionalisation in an Islamic bank evolved over time and the underpinning reasons, unlike NIE and NIS, which examined external influences and constraints from macro or inter-institutional levels. Notably, Burns and Scapens (2000) developed an (old) institutional framework to examine intra-institution via OIE. This framework proved workable in research on power, politics, values, perceptions, and culture. The ongoing institutionalisation processes are explained from an evolutionary stance (Scapens, 2006). Siti-Nabiha and Scapens (2005) upheld the OIE standpoint while simultaneously

considering external environmental factors to drive the institutionalisation process under NIS.

External factors must be deemed loosely connected with the rules and routines at the intra-institution level, whereas the internal counterparts are developed alongside the rules and routines and subsequently institutionalised at this level. Likewise, Scapens (1994) highlighted the influence of external environmental factors on institutional members' worldviews and provided them with relevant knowledge to internalise their own actions in day-to-day activities. Dillard et al.'s (2004) framework underpins a similar view but integrates both OIE and NIS. At the intra-institutional level, their research on institutionalisation considered internal and external environmental forces. Factors such as the distribution of power at the political level, industrial consultants, professional bodies, and the industry itself, have gained legitimised to establish new internal rules, frameworks, and policies for the operational foundation within the institution.

3.4 INSTITUTIONALISATION AS OF BURNS AND SCAPENS' FRAMEWORK

Burns and Scapens' (2000) framework was extended from OIE, which stemmed from the works of Veblen and other institutional economists (Langlois, 1989) in the early 20th century. This approach was revitalised in the late 20th century (Hodgson, 2004). Notably, the aforementioned framework was structured by past research based on Giddens' structuration theory (Roberts and Scapens, 1985; Scapens and Roberts, 1993; Macintosh and Scapens, 1990).

Earlier research employed Giddens's duality of structure to examine changes in management accounting and the modalities of structuration where agency was associated with structure. Regardless, Giddens's concept of structure could not be effectively applied

to case study research on management accounting change. Barley and Tolbert (1997), who conceded to the limitations of using Giddens's structuration theory, proposed a framework with a time dimension. This dimension provided case study research with a more useful framework, where scripts were used to connect institutions and actions compared to Burns and Scapens' rules and routines. Barley and Tolbert used the concept of scripts to explain how members in institutions discover and enact expected behaviours. In their study, scripts were provided as a framework for understanding the connection between institutions and actions. Burns and Scapens, on the other hand, concentrated on the role of rules and routines in shaping institutional behaviour. They emphasised the importance of formal structures and procedures in guiding members' actions within institutions.

Influenced by OIE, the Giddens' structuration theory, and evolutionary economics (Wickramasinghe and Alawattage, 2007), Burns and Scapens (2000) framework clearly distinguished the institutional realm from the realm of action (see Figure 3.1). The institutional realm entails institutions and is referred to as the shared 'taken for granted' beliefs, which are incorporated into the rules and routines shaping institutional members' conduct and behaviours. Perceivably, institutionalisation is presumably set in institutional members' mindsets.

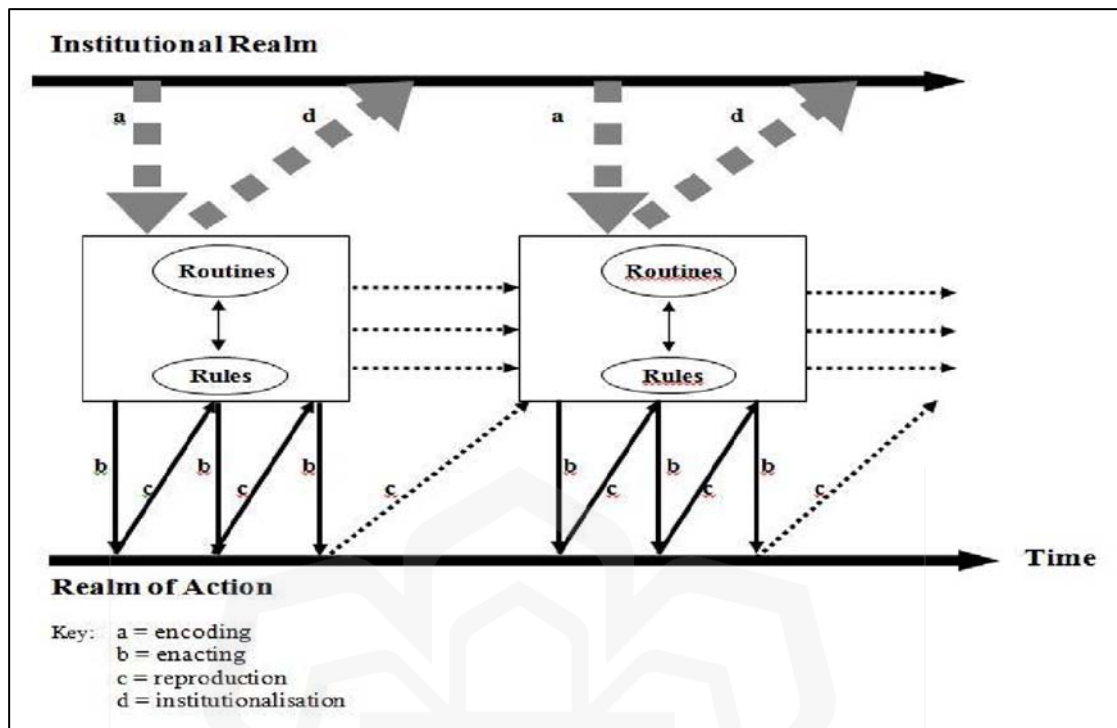


Figure 3.1 Burns and Scapens' (2000) Framework

The rules and routines in this framework link institutional members' actions to their institutions. Rules imply formalised procedures or regulations, while routines denote procedures that are in actual use (Burns and Scapens, 2000). Although rules are typically established by an institution's head of division (those with hierarchical authority), institutional members are the ones who shape the routines that actualise these rules in daily operations. The rules could be stipulated in a formalised structured procedure manual and framework and verbalised by the institution's head of division.

Routines emerge with the incorporation of these rules in practical situations but deviate over time. As certain rules may no longer hold practical relevance in complex situations, changes may be necessary to accommodate specific internal or even external environments over time. Routines can influence rules despite resulting from their application. Meanwhile, established practices may be embedded into new rules over time.

The individual or collective actions taken upon discerning a shift in existing rules and routines reflect opposition to change. Resistance is typically grounded in valid perspectives and aspects of reality, which must be seriously regarded to implement change. Burns and Scapens (2000) identified three forms of resistance in institutionalisation: (i) formal resistance caused by conflicts of interest, (ii) resistance to utilise the new tool and resistance following a 'mental allegiance' to conventional practices, and (iii) rejection of the reproduction of new strategies. Such forms of resistance are common in an institution. Observably, the formal adoption of Shariah governance may instigate related challenges following the institutionalisation of Shariah governance in Islamic banks. Burns and Scapens (2000) subsequently presented the institutional theory to better comprehend institutionalisation. Various forms of change processes are evident in the three dichotomies of the institutional framework, such as transformational versus incremental change, regressive versus progressive change, and formal versus informal change.

Following Burns and Scapens (2000), evolutionary change denotes an incremental change that indicates various but small-scale changes. The change process gradually builds upon these minute changes. Evolutionary change merely adapts and modifies existing routines with minute changes and a gradually constructed change process (Scapens and Jazayeri, 2003). The core institutional values and characteristics will remain despite shifts in the institutional members' behaviour during the process (Burns and Scapens, 2000). Meanwhile, revolutionary change implies the change process that threatens existing institutions. This predominantly top-down process exposes current institutions to risk, with minimal or no room for institutional members to shape the change even via communication. Regressive change is part of a ceremonial behaviour that often occurs following a general mistrust or reluctant to updated rules and routines. Specifically, this process involves ceremonial institutionalised rules that constitute fact rituals in an institution that aim to retain its routines (Burns and Scapens, 2000; Siti Nabiha and Scapens, 2005). Progressive change denotes instrumental behaviours, which stem from a culture that solicits relevant and adequate solutions to issues and enhances current institutional relationships (Burns and

Scapens, 2000), thus signifying an institution's commitment to change (Siti Nabiha and Scapens, 2005).

Formal change, which is deliberately incorporated with the introduction of new rules (Wanderley, 2011), requires much planning and is ceremonially presented by an influential group (Li et al., 2010). Contrarily, informal change is the unintentional focus on routines over rules and how existing routines accommodate the changing environment over time. Informal change occurs implicitly when reiterative actions become daily operational routines (Burns and Scapens, 2000; Li et al., 2010). A sound understanding of change process types and the associated dichotomies would delineate the institutionalisation of Shariah governance. To the best of the author's knowledge, this study offers the first qualitative study which explore the institutionalisation of Shariah governance practices within Islamic bank by employing Burns and Scapens' (2000) framework.

Research on the institutionalisation of Shariah governance practices in each Shariah control function (Shariah review, Shariah audit, Shariah risk management, and Shariah research) remains scarce despite Islamic banks' exponential growth and the body of literature on Islamic accounting and auditing (Lahsasna et al., 2013). The present study aimed to fill the gap in the conventional institutional theory from an Islamic perspective and expand the existing literature on Shariah governance institutionalisation in Islamic banks.

Burns and Scapens' (2000) framework contains the elements of rule, routine, action, time, and institution, which facilitate accounting change in institutions and delineate how institutions can explain change or resistance to it. This framework was extensively applied to investigate the power of institutions in resisting change with sound justifications. Despite having been published two decades ago, extending the framework to align with current views in OIE and NIS could clearly depict the intra-institutional Shariah governance in this study.

Encoding, enacting, reproduction, and institutionalisation represent the four reciprocal processes within rules and routines. First, the prevailing institution and assumed assumptions and meanings are encoded into the new rules, routines, and procedures embodying institutional values. These rules or procedures are typically interpreted based on the system users' present norms and values. Second, the routines and rules encoding the institutional principles via institutional members' daily tasks are enacted. Third, the rules and routines are gradually reproduced through repeated use in actual situations (Burns et al., 2003). Fourth, the rules and routines reproduced through institutional members' behaviours are 'institutionalised'. The key characteristic of Burns and Scapens' framework lies in its description of the gradual processes of change and relative stability (Cameron and Quinn, 2011). Table 3.1 outlines the four stages of institutionalisation in Burns and Scapens' (2000) framework.

The institutionalisation of Shariah governance rules and routines in this study can be applied to Islamic banks as the implementation of Shariah governance within Islamic banks has significantly altered Islamic bank businesses (Kasim et al., 2013). Consequently, the expectation is that rules and routines processes must change to align with Shariah governance. Figure 3.2 is the theoretical framework for this study, and it shows the movement of the institutionalisation of Shariah governance in EMERALD.

Table 3.1 Institutionalisation by Burns and Scapens' Framework (2000)

Process	Transform Rules and Routines
Encoding	The process of encoding current rules, routines, and procedures that embodied institutional values, including the adoption of existing accounting standards.
Enacting	The new rules and routines performed by institutional members on daily activities are enacted in the institution. At this point, resistance can occur when novel rules and routines challenge current understanding.
Reproduction	The practical reproduction of novel rules and routines occurs reciprocally and reiteratively over time.
Institutionalisation	Institutional members collectively embrace the novel rules and routines.

Based on this study, there is a potential that Islamic banks may need to adjust their rules and routines to comply with BNM's requirement of forming four Shariah control functions (Shariah review, Shariah audit, Shariah risk management, and Shariah research) under SGF 2010. The Shariah research function was removed from SGPD 2019 but consolidated into the three remaining functions. As such, Islamic banks may, be influenced by the intra-institutional domain, which encompasses thought processes and assumptions shaping human behaviour, as well as the domain of action, which progressively integrates into institutionalisation during the pre-institutionalisation.

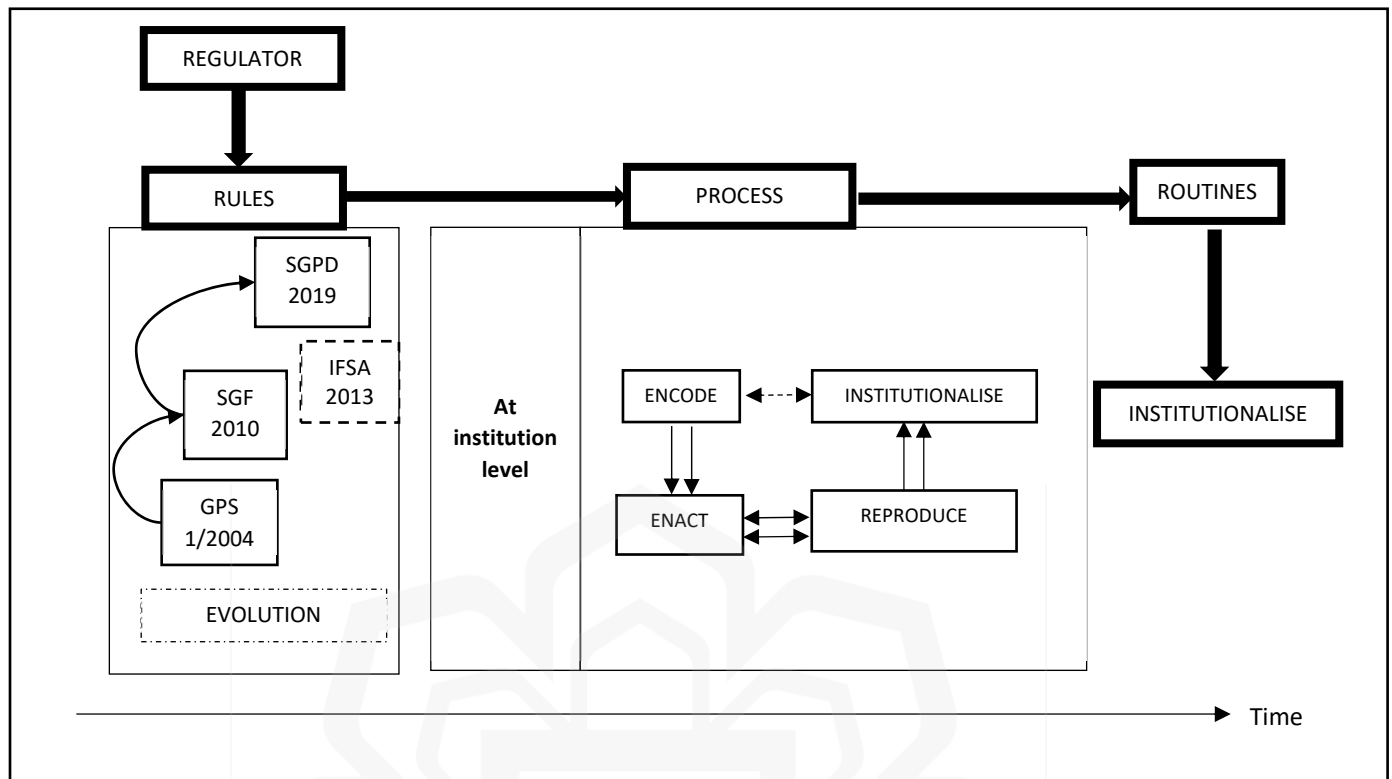


Figure 3.2 Theoretical Framework

3.4.1 Encoding

Encoding implies embedding Shariah governance practices into written documents, such as policies, procedures, and guidelines, and ensures the consistency of these practices and their easy dissemination among employees. In this study, EMERALD encoded its Shariah governance practices by developing a Shariah policy manual at the Shariah control function level (Abdullah, 2015).

3.4.2 Enacting

Enacting involves training employees on Shariah governance, developing Shariah-compliant products and services, and regularly conducting Shariah audits by galvanising Shariah governance practices into action. At the Shariah control function level, EMERALD enacted its Shariah governance practices by periodically providing their employees with training sessions or short courses on Shariah governance and performing regular Shariah audits (Ahmad and Hassan, 2017).

3.4.3 Reproduction

Reproduction ensures the consistent implementation of Shariah governance practices by monitoring compliance with Shariah governance practices, providing employee feedback, and changing rules as required. In this study, EMERALD incorporated several mechanisms (Shariah compliance department and Shariah audit committee) at the Shariah control function level to ensure the reproduction of Shariah governance practices (Ismail et al., 2020).

3.4.4 Institutionalisation

Institutionalisation entails the incorporation of Shariah governance practices within the routines of an establishment. Shariah governance practices constitute part of the institutional culture and values. In this study, EMERALD demonstrates a commitment in institutionalisation to strengthen its Shariah governance practices at the Shariah control function level. The Shariah governance practices of EMERALD are key to the institution's culture and values (Othman and Rahman, 2019).

3.5 WHY USE THE BURNS AND SCAPENS' FRAMEWORK (2000)?

Burns and Scapens' (2000) comprehensive framework thoroughly explains the implementation of Shariah governance practices in EMERALD from encoding to institutionalisation. In this context, institutionalisation is an ongoing process of change rather than an isolated event. The framework itself is flexible and explains the institutionalisation of different practice types, including Shariah governance practices in this study. The framework has been applied to examine the institutionalisation of management accounting approaches in specific establishments.

The framework also justifies the contribution of culture and value elements in institutionalising Shariah governance practices in EMERALD as it acknowledges the significance of culture and values in institutionalisation. Despite the availability of other frameworks, such as DiMaggio and Powell's (1983) framework of institutional isomorphism, Meyer and Rowan's (1977) framework of institutionalised institutions, and Scott's (2008) framework of institution, Burns and Scapens' framework aptly exemplified the institutionalisation of Shariah governance practices in EMERALD following its comprehensiveness, dynamism, and applicability.

3.6 LOOSE COUPLING

Loose coupling refers to the level of interdependence between different institutional parts. A loosely coupled institution is one in which multiple elements can operate independently for seamless adaptation to change. Changes in one part may not significantly impact other counterparts (Weick, 1976). Early institutional decision-making theories perceived institutions as loosely coupled systems (DiMaggio and Powell, 1991). Burns and Scapens (2000) further explored this viewpoint. Theoretically, loosely coupled systems may deter

rules and routines from retaining institutional activities. This implies that stability and change are not inherently contradictory. While legitimised rules in an institution may stabilise routines, as Burns and Scapens (2000) demonstrate, changing rules concurrently allows for consistent routines.

Scholars observe change conventionally where novel rules are merely enacted in name to maintain existing routines. This ceremonial gesture renders institutionalisation challenging to adopt. Past works revealed this relationship is considered precise and essential, to a certain extent, for effective institutional operationalisation. This necessity stems from the fact a change in rules, which alters an institution's daily activities (routines) (Burns and Scapens, 2000), may abruptly change the overall institution and the taken-for-granted assumptions of how the institution functions. This abrupt change can adversely impact actions and conduct, thereby reducing institutional effectiveness and productivity. Hence, a degree of loosely coupled systems must be demonstrated (Siti Nabiha and Scapens, 2005). The implementation of change through acquisition and merger, privatisation, and restructuring becomes rigid when the associated force factors originate from an external environment. Such shifts inevitably pose institutional challenges.

The implementation and reinforcement of rules and routines take place when an external institution strives to introduce change. Institutional members implement the new rules and routines to the extent that the reproduction parallels the current institution. This reproduction, which integrates both top-down and bottom-up changes, rather than solely a top-down approach, evolves existing rules and routines into institutionalisation over time. An external entity's implementation of new rules is a form of loose coupling that demonstrates how practices are actually performed (routines) to retain institutional activities. The new rules are reproduced based on how institutional members use them (bottom-up change), thus denoting a closer connection to the existing institution (Burns and Scapens, 2000). Hence, this approach considers any factors that affect institutional members' behaviour, provided that the associated activities are stable (Dillard et al., 2004; Wanderley et al., 2011).

In this study, the requirement for Shariah compliance within Shariah governance was loosely coupled with institutionalisation. Shariah compliance, which is endorsed and legitimised by BNM for Islamic banks, serves as legal rules at the internal Shariah control function. Meanwhile, compliance culture was previously embedded into institutional members' actions and behaviours at the preliminary stage of the Islamic bank. The combination of Shariah compliance and compliance culture would strengthen the legitimacy of new institutionalisation, which serves as an internal environmental factor that may initiate this process. Concurrently, the Shariah control function members' development of actions and behaviours may have contributed to the stability and productivity of the operations of an Islamic bank's activities in alignment with the evolving Shariah governance framework.

3.7 DECOUPLING

As a concept in institutional theory, decoupling entails distinguishing formal and informal structures in an institution. A decoupled institution is one in which the formal (institutional) structure fails to precisely reflect its informal counterparts, such as power relationships and decision-making processes. Decoupling can be an alternative for institutions to accommodate change. For example, institutions can create flexibility by decoupling both formal and informal structures, allowing them to change without completely overhauling their formal structure.

Although establishments may adopt a formal and hierarchical structure, an informal structure may be more flexible and facilitate lateral communication. Such fluidity enables institutions to effectively accommodate change and refrain from altering their formal structure with every environmental shift. Notwithstanding, decoupling can also lead to adverse implications. It is challenging to ensure effective institutional operations and hold people responsible for their actions given the incongruencies in formal and informal

structures. Therefore, institutions must cautiously consider the benefits and drawbacks of this intricate phenomenon before implementation. The following section discusses how the institutionalisation underpinned by Burns and Scapens' (2000) framework explains the institutionalisation of Shariah governance practices in EMERALD. Further elaborations will be presented in Chapter Six.

3.8 INSTITUTIONALISATION OF SHARIAH GOVERNANCE PRACTICES

Institutionalisation entails the transition from old to new structures, policies, behaviours, actions, patterns, methodologies, products, or market ideas according to the reconceptualised institution patterns (Kanter, 1992). It involves the development of new frameworks or the redefinition of existing ones to establish innovative and effective practices (Vargo et al., 2023). According to Kanji and Moura (2003) and Lycke (2003), institutional changes potentially vary based on procedures, structures, rules and regulations, technology, training and development, and customer needs. These changes denote a shift in one's behaviour, activities, and the behaviour-activity relationship in an institution (Kanter et al., 1992).

High levels of pressure, multiple catalysts, or significant influence are necessary to effectively institutionalise novel practices (Norhayati and Siti Nabiha, 2009). Two elements typically affect institutionalisation: internal and external environmental pressures (Cobb et al., 1995). Much pressure is mounted from economic and political levels to institutional and intra-institutional ones (Wanderley et al., 2011). As such, institutionalisation is a time-consuming process. Based on the BNM-issued Shariah governance and past study critics, Islamic banks could undergo the institutionalisation of Shariah governance practices for more holistic Shariah compliance practices.

Globalisation, privatisation, merger, acquisition, restructuring (Tsamenyi, 2010; Sulaiman et al., 2008), and new regulations mandate (Haveman, 1992) are external environmental pressures that induce institutionalisation and optimise institutional performance. Binder (2002) contended that institutionalisation is unaffected by laws. Change agents could perceive the regulations differently in affecting institutionalisation (Edelman, 1990). Regulations may have occasionally catalysed institutional change through direct or indirect means (Kellogg, 2009). Furthermore, high market competition, which led to the reorganisation of resources and processes (Wanderley and Cullen, 2013) and information technology development, could induce change in institutions and their members (Yazdifar and Tsamenyi, 2005).

Meanwhile, management initiatives and rewards, shifts in key institutional members (Weick and Quinn, 1999), and reporting priorities denote internal environmental pressures that catalyse inter-institutional change (Cobb et al., 1995). Trust in the adopted regulations and one's roles and functions is a key internal force factor that establishes compliance culture and institutionalisation (Busco, 2006; Wanderley et al., 2011). Institutionalisation at the intra-institutional level occurs in a member's institutional realm and realm of action to gradually transform current rules and routines (Burns and Scapens, 2000). Culture is an internal force factor of institutionalisation at this level (Ahmed, 1998). Most institutional culture scholars conceded to the influence of culture in institutionalisation (Bhimani, 2003). Nonetheless, this aspect could induce resistance to change if institutional members are nonchalant about current thoughts, behaviours, and actions (Hassan, 2005; Nor Aziah and Scapens, 2007).

As a key determinant of institutionalisation, the nature, effects, and significance of change are inconsistent (Nor Aziah and Scapens, 2007). This aspect is founded on assumptions that influence and guide individual behaviours (Guerreiro et al., 2021). In this vein, gradually evolving events may or may not induce a sense of change. As a pivotal factor of routines, change assists in renewing and recreating institutional life and systems for survivability. The model of change recipient reactions by Oreg et al. (2011) highlighted

change as a process of evolving, altering, or shifting an institution and its divisions, functions, rules, or practices to elicit present actions (George and Jones, 1996) for high effectiveness. Amended regulations (Tomasic, 2011) exemplify a factor that initiates institutional change (Zainuddin and Sulaiman, 2016). As examined in this study, the evolution of Shariah governance within the Malaysian banking sector has influenced how EMERALD carried out its activities, processes, and practices as an Islamic bank.

An institution is a workplace that may take the form of a corporation, organisation, or other entity, where groups of individuals (Kramer and Kramer, 2020) collaboratively and systematically perform specific tasks to achieve a common goal. Globalisation has intensely pressured institutions to change, be at par with the customer-driven market, and seamlessly accommodate market shifts (Norrgrén et al., 1996; Harenstam et al., 2004). Essentially, institutions have evolved to practice better governance, regardless of the global contextual environment. These changes proved to be more innovative, inventive, and creative in addressing relevant issues. Although the process of evolution creates positive competition among institutions, not many counterparts are keen to accept change as a compulsory means of sustaining stringent workplace policies (Kieselbach et al., 2009). Change has been related to intention to quit (Holt et al., 2007; Oreg, 2006), absenteeism (Martin et al., 2005), low productivity, and high medical expenses (Mack et al., 1998) at the institutional level and affected time-related pressure, mental health (Probst, 2003), professional fulfilment (Amiot et al., 2006; Holt et al., 2007; Oreg, 2006), and stress (Axtell et al., 2002) at the individual level. Overall, institutionalisation is linked to adverse implications for institutions and institutional members.

Regardless, research on culture and institutionalisation revealed positive responses (Burn and Robin, 2003; Youssef, 2003) in encouraging employee identification with and commitment to certain values and operating philosophies (Jazayeri and Hopper, 1999), implementing advanced information technology (Tuanmat and Smith, 2011), improving institutional performance (Mail et al., 2006), and elevating employees' workplace motivation and satisfaction levels (Iverson, 1996). Effective management is rendered

participative and informative (Oreg et al., 2011), with management behaviour affecting followers' well-being (Skakon et al., 2010). As such, managers function as catalysts of change, role models (Kieselbach et al., 2009), and fundamental change agents who expedite institutionalisation and impact the extent to which followers embrace change (Armenakis et al., 2007). Institutions must adhere to environmental shifts for legitimacy and ongoing social support (Munir et al., 2011; Wanderley et al., 2011).

An institution is established with rules and standards that operationalise its activities or practices (Dillard et al., 2004). Although institutionalisation develops institutional activities or practices, which are gradually learned via rules and routines (Burn and Scapens, 2000; DiMaggio et al., 1983), Binder (2000) and Edelman (1990) contended that some new regulations did not impact the process. These institutions and stakeholders are comfortable with conventional rules and routines (Kellog, 2009). Similarly, Barley and Tolbart (1997) defined institutionalisation as a continuous process executed by institutional members through routine-induced behaviours (Said, 2012). According to Barley and Tolbart (1997) and Johnson et al., (2000), institutionalisation denotes a two-way (bottom-up or top-down) action by institutional members.

Institutionalisation occurs when an establishment has transformed operational structures and activities (Nonas, 2005) and transitioned from the existing environment to a new and conducive one (Nelson, 2003). This process also functions as a problem-solving tool in institutions (O'Hara, 2015). Such a transformation demands effective management transition for success and sustainability in rapidly changing and competitive corporate environments. Despite much research to identify the reasons underlying how, why, when, and by whom an institutionalisation occurs over specific periods, the fundamentals of institutionalisation are relatively disregarded.

Empirically, institutionalisation often occurs in an institution when a new environment is introduced (Tsamenyi et al., 2006; Wanderley et al., 2011). Regardless, the

institutions and their members tend to resist and contest such novelty. Alternatively, environmentally driven institutionalisation could facilitate institutional members to successfully develop and create institutionalisation (Quattrone and Hoper, 2001; Youssef, 2013; Alsharari et al., 2015). Islamic bank growth may deteriorate without the institutionalisation of Shariah governance, as employees will revert to old rules and routines to address the complexities resulting from the current global crisis.

The question as to whether adherence to BNM requirements reflects a conducive Shariah compliance culture and the establishment of institutionalisation Shariah governance practices in an Islamic bank within internal level remains unaddressed. As evidenced by past works on institutionalisation in conventional accounting, adopting a novel accounting system would significantly alter institutional members' behaviour patterns (Pettigrew et al., 1992; Scapens and Roberts, 1993; Argyris and Kaplan, 1994; Anderson and Young, 1999). Previous studies on human resistance to accounting change (Siti Nabiha and Scapens, 2005; Markus, 1983; Scapens and Roberts, 1993) and the role of technology in adopting novel accounting systems (Markus and Pfeffer, 1983; Orlikowski, 1992) suggest that implementation challenges, such as resistance to accounting change and technology integration, can deter the institutionalisation of new accounting practices. Several studies (e.g., Busco et al., 2006; Clement, 1994; Busco and Scapens, 2011; Dent, 1991; Schein, 1990; Coad, 2016; Tsamenyi, 2010; Giddens, 1993; Siti Nabiha and Scapens, 2005; Parker, 2012) have also explored the institutionalisation of various practices and the impact of different factors like trust, leadership, culture, and structure. However, they did not examine the factors that shape and influence the institutionalisation of Shariah governance practices within Islamic banks. Even though these studies offer valuable insights into the institutional theory, their findings cannot be directly applied to understand how Shariah governance practices are institutionalised in an Islamic bank. Therefore, further research is necessary to investigate how Shariah governance practices become embedded and institutionalised within Islamic banks.

This study explored the implications of evolving Shariah governance practices on the Shariah control function of EMERALD, particularly emphasising on the regulations and established procedures governing the operational activities and affairs of Shariah control functions in EMERALD. The motivation is to further ensure that the transition from old rules and routines to new ones could occur with the institutionalisation of Shariah governance practices and identify the mechanisms or tools that effectively comply with Shariah governance practices.

3.9 SUMMARY

This chapter discusses the institutional theory of Shariah governance practices, which examines how social institutions, such as rules, routines, and values, shape the behaviours of an institution and its members. It provides insights into how institutions influence the way IFIs comply with Shariah. Notably, NIE, NIS, and OIE are the three main concepts of the institutional theory. NIE focuses on the role of formal institutions, such as laws and regulations, in shaping economic behaviour. NIS focuses on the role of informal institutions, such as norms and cultures, in shaping social behaviour. As for OIE, the roles of history and evolution are essential in internalising institutions. In their framework, Burns and Scapens (2000) noted encoding, enacting, reproduction, and institutionalisation as the reciprocal processes within rules and routines in an institution at an internal level.

The Burns and Scapens' (2000) framework is highlighted in this study to understand the institutionalisation of Shariah governance practices. The concepts of loose coupling and decoupling are further discussed in this chapter, which are essential for understanding how institutions can influence the behaviour of institutional members even when they are not rigidly enforced. Burns and Scapens' framework denotes that OIE helps to better understand the challenges of institutionalising Shariah governance practices in IFIs. Aspects like promoting Shariah compliance culture in an institution as well as tools

development for monitoring and evaluating Shariah governance practices and non-compliance deterrent and mitigation will serve as an added value. Nonetheless, the institutionalisation of Shariah governance practices is an ongoing process and greater awareness, understanding, and enforcement of evolving Shariah governance in IFIs and their stakeholders are desirable. Therefore, the institutional theory is a novel means for gaining insight into the institutionalisation of Shariah governance practices within Malaysian Islamic banks.

Next chapter outlines the research methodology adopted to explore the institutionalisation of Shariah governance practices. It details out the qualitative approach, data collection methods, and analytical techniques used to examine how the theoretical constructs identified are manifested and operationalised within the context of Shariah governance in ensuring Shariah compliance.

CHAPTER FOUR

METHODOLOGY

4.1 INTRODUCTION

This chapter outlines the research methodology adopted for this study. It begins by discussing the philosophical assumptions underpinning the research, providing the epistemological and ontological foundations that guide the inquiry. The chapter then presents the institutional environment within which the study is situated, followed by a background of EMERALD, the subject of investigation in this single case study. The research framework is subsequently introduced, offering a conceptual basis for the study.

The core of this chapter focuses on the research design, which includes the qualitative research approach adopted, the interpretive approach, and the specific data collection methods employed. These methods include interviews, participant engagement, data collection procedures, and document review techniques. A thorough explanation of the data analysis process is also provided, with particular emphasis on content analysis, cognitive mapping, and the use of NVivo software for organising and interpreting qualitative data. Further sections address issues of data saturation and research validity, including a discussion on data triangulation to enhance the accuracy and reliability of the findings. The chapter concludes with a summary, synthesising the methodological choices and their alignment with the overall research aims.

4.2 PHILOSOPHICAL ASSUMPTIONS

Research philosophy constitutes the key assumptions underlying research strategy and method selection (Saunders et al., 2007). These assumptions distinguish between methodology and method (Ahrens and Chapman, 2006) based on ontological and epistemological stances. Ontology denotes the reality of a specific phenomenon (Chua, 1986; Laughlin, 1995). In another way, existing concepts and knowledge understanding are socially shaped through an experience of institutional members within the institution. Thus, subjective knowledge is empirically acquired and accepted. In this study, knowledge implies the information collected from EMERALD to address the research questions.

This study aimed to investigate the evolution and institutionalisation of Shariah governance practices. The methodologies for eliciting the necessary information were determined by ontological and epistemological standpoints. Given the subjective social reality of ontology, experimental and non-experimental designs were inappropriate methodological approaches (Creswell, 2003). Subjective reality must be interpreted through engagement with the institutional members who have shaped it to gain a sound understanding. As such, this qualitative study employed a case study approach to thoroughly explain social reality (Tomkins and Groves, 1983).

The current work justifies how Shariah governance evolution catalysed the institutionalisation of rules and routines or Shariah governance practices. As social phenomena, rules, and routines can be altered by institutional members, it is vital to seek the general laws of nature that govern human behaviour and shape social interactions in an institution to examine how institutionalisation occurs (Scapens, 1990). In this study, members of the Shariah control function in EMERALD were interviewed to elicit information on the evolution of Shariah governance and the challenges and acceptance of new rules and routines in EMERALD. As a researcher is perceived as an independent observer under the assumption of social reality, the established (encoded) rules and

practiced (enacted) routines associated with each institutional member could be observed to explain social phenomena.

In this socially constructed and subjective reality, the independent researcher was required to observe the institutional members' actions and behaviours to perceive specific changes in their routines and derive relevant knowledge of the institutionalisation of Shariah governance practices. Nonetheless, this observation could not be conducted due to the enforcement of the Movement Control Order (MCO) to mitigate the spread of COVID-19 in Malaysia. Limited observations were made via online interviews. Nevertheless, the first interview, which was physically conducted in EMERALD, enabled the researcher to observe the institutional members' routines under one of the Shariah control functions. Close interactions with the institution members provided the researcher with a comprehensive understanding of their beliefs, emotions, and adherence that catalyse the institutionalisation of Shariah governance practices.

4.3 INSTITUTIONAL ENVIRONMENT

An institutional environment is defined by a combination of formal and informal rules, norms, and beliefs that shape institutional and personal behaviour in a particular society (Webb et al., 2020). It comprises the legal system, government regulations, social norms, and religious beliefs. This environment significantly affects how institutions operate, existing product and service types, and people's interactions.

Concerning Shariah governance, the institutional environment can influence how businesses and individuals adhere to Shariah tenets and shape the way people think about and understand Islamic principles. Members of a community that embraces Shariah principles are conscious of its requirements and willingly adhere to them. Contrarily,

counterparts in a society where Shariah principles are not clarified or appear contradictory to other values may lead to lower compliance. In summary, the institutional environment significantly shapes the practical implementation of Shariah governance. Businesses and individuals can better position themselves to comply with Islamic principles by understanding the different elements of the institutional environment.

A legal system includes statutory law enacted by the government and common law based on the precedents set by judges to govern an institution and its environment. It can significantly influence business operations, available product and service types, and institutional members' interactions. Other key components include government rules and requirements, which are imposed on businesses and individuals and cover a broad range of areas, such as environmental protection, workplace safety, and consumer protection.

Social norms are the unwritten rules governing institutional members' behaviour, such as dress codes, etiquette, and expected workplace interactions. It serves as one of the key components of the institutional environment. Social norms can potentially influence how businesses operate and how people interact with one another. Finally, religious beliefs can play a pivotal role in establishing the institutional environment. Such beliefs potentially influence how laws are enacted, businesses operate, and people interconnect in societies where religion is a dominant force.

The institutional environment must conform to rules and requirements to receive support and legitimacy from external regulators or internal arrangements. Rules are laws or regulations that must be adhered to, while requirements denote stipulations that must be met. Institutions that fail to meet a stipulated time frame may be warned or penalised. These consequences underscore the significance of rules and requirements in an institution. In this respect, the significance lies in shaping institutional members' beliefs, norms, and culture by managing how practices should be implemented and how they are done amidst changes. In this study, BNM regulated all financial institutions in Malaysia. As a regulatory body,

BNM is responsible for providing the rules and requirements necessary for Malaysian banks' growth. Thus, it is essential to first understand what EMERALD represents and the setting behind its establishment before exploring how rules and regulatory practices are implemented within EMERALD.

4.4 BACKGROUND OF EMERALD

As briefly introduced in Chapter One, EMERALD's effective implementation of Shariah governance ensuring Shariah compliance in all aspects of institution practices has formed a contextual backbone for this study. The establishment of EMERALD marks a crucial point in developing a robust Islamic financial system in Malaysia (Al Nasser and Muhammed, 2013). Nevertheless, it is deemed challenging to establish a bank that operates within the Islamic scope. A pioneer of EMERALD underscored the significance of practitioners' intermediary role, background, and philosophy in product and service development at the beginning of EMERALD's inception (Kitamura, 2019). Additionally, most of the pioneers were only familiar with conventional banking and relatively unaware of the structural changes in managing Islamic banks. Such shifts necessitate a significant overhauling of the bank's range of operations and activities (Harkati et al., 2020).

EMERALD aims to advance prosperity for the Malaysian population (including non-Muslims), provide value-added financial solutions, and deliver end-to-end Shariah-compliant banking. The range of EMERALD products includes (i) Shariah-compliant financing, savings, and investment solutions for individual customers and (ii) banking and financial solutions design to meet the diverse financial needs of customers across all categories, including those related to micro-financing, wealth management, capital market, treasury, and structured products. This broad spectrum signifies the exponential growth of EMERALD from its infancy, which has developed from having a limited number of

employees and branches in Kuala Lumpur to a large-scale workforce and branches across Malaysia.

EMERALD's businesses primarily revolve around three areas: personal banking, commercial, and SME banking, and treasury and corporate banking services. Personal banking encompasses a wide range of services, which include (i) deposit, personal investment products, and bank card solutions, (ii) financing products like personal, home and automobile, and (iii) transactional banking services. Meanwhile, commercial and SME banking offers a distinctive range of business financing facilities, including (i) vendor financing, (ii) business premises financing, and (iii) contract financing services. Treasury and corporate banking denote a broad range of wholesale banking solutions, such as (i) investment banking and financing facilities, (ii) money and capital markets, and (iii) currency conversion and advisory services. The positive trends of the Islamic banking system have attracted other commercial banks to incorporate Islamic banking schemes into their banking practices (Asni, 2019). Harkati et al., (2020) projected the exponential growth of the Islamic banking sector, which can increase industrial competition while boosting Islamic banking services and innovations.

4.5 RESEARCH FRAMEWORK

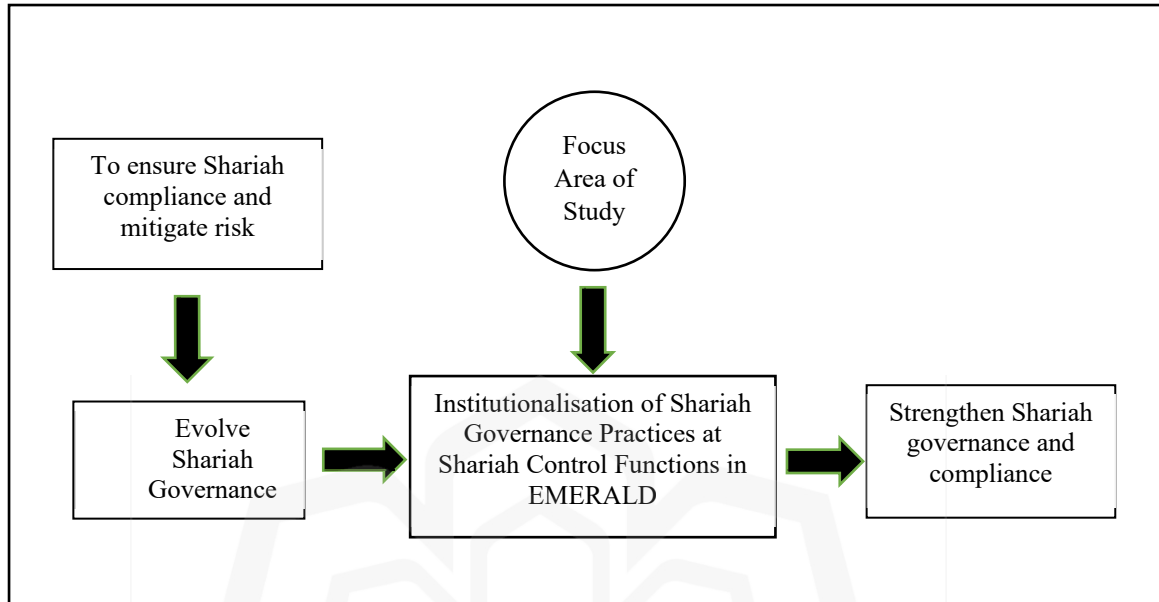


Figure 4.1 Focus Area of Study

Figure 4.1 explains the focus area of study within a research framework on institutionalisation of Shariah governance practices in EMERALD. It emphasises the process of institutionalising Shariah governance practices within Shariah control functions in EMERALD as the central research focus. The research framework begins with the objective of ensuring Shariah compliance and mitigating risks, leading to the evolution of Shariah governance. This study focusses on the institutionalisation of governance practices, which strengthen Shariah governance and compliance. Next section is on the overall research structure used for this study.

4.6 RESEARCH DESIGN

This study commenced with a philosophical foundation and a guiding framework that determined the research design, methodology approach, and data collection methods. It entails the researcher's standpoint and strategies to elicit specific information. A suitable research method is crucial to complement the study objectives (Saunders et al., 2009). As such, this qualitative work used an interpretive single case study approach to attain viable, valid, and saturated knowledge on the evolution of Shariah governance as well as the institutionalisation of Shariah governance practices in EMERALD. Figure 4.2 outlined the exploratory research design and framework of the study which was adapted from Hoque and Rossingh (2006) with some amendments to complement the current research methodology, methods, and techniques. The processes and foundations for the approach and techniques were delineated in this framework.

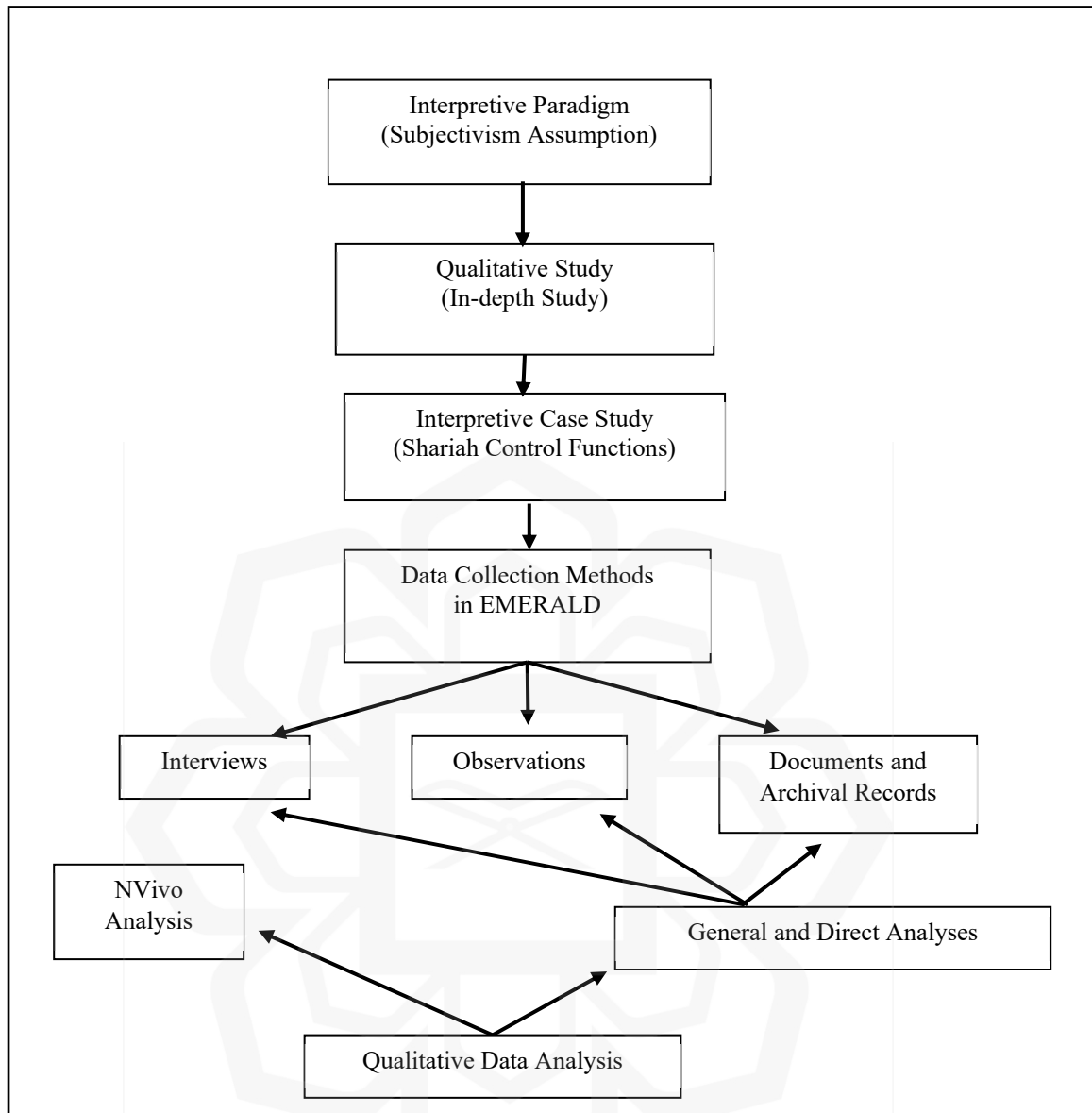


Figure 4.2 Research Design Framework

4.6.1 Qualitative Research Method

This qualitative study employed an interpretive single case study approach to obtain viable, valid, and saturated knowledge of the evolution with respect to Shariah governance and the institutionalisation concerning Shariah governance practices within EMERALD. The

selection of EMERALD as the case study was prompted by the fact that it is an IFI that excels in practising Shariah compliance, with an emphasis on designing and providing its consumers with comprehensive and innovative Shariah-compliant financial and banking solutions (Mohamed and Ibrahim, 2023; Kitamura, 2020; Kaaroud et al, 2020). Despite applying a qualitative research design, this study used a multi-method technique for data gathering whereby sufficient data were gathered from multiple sources of evidence to strengthen the findings.

The current work examined the actions and behaviour of EMERALD's institutional members in routinising the translated rules and institutionalising Shariah governance practices. The researcher closely interacted with the institutional members in line with the study objectives, which aimed to understand the institutionalisation of Shariah governance practices following evolutions in Shariah governance regulations. The institutional members of EMERALD received the (encoded) rules and routinised (enacted) them to re-establish (reproduce) Shariah governance practices as a new rule that is accepted (institutionalised) by all institutional members. According to Merriam (2009), qualitative research provides a sound understanding of how people interpret their experiences, construct their worlds and cultures, and attribute routine-based meanings to their experiences.

The subjective actions, behaviour, compliance culture, and institutionalisation of institutional members could be gauged using a holistic inquiry and direct engagement with the members (Murray, 2004). Hence, qualitative research is more appropriate than its quantitative counterpart (Conger, 1998) in achieving the study objective, which is to understand the institutionalisation of Shariah governance practices in EMERALD, specifically under the Shariah control function. As a type of scientific exploration that seeks responses to subjective inquiries, qualitative research employs a predetermined series of protocol to address the inquiries by gathering proof and generating results (not predetermined) which apply within the study area.

In advocating the use of qualitative approaches, Conger (1998) highlighted the inadequacy of using quantitative methods to thoroughly explore phenomena with complex attributes. The use of qualitative methods to explore complex institutionalisation dimensions is advantageous in terms of in-depth examination, longitudinal approach, unexpected phenomena, exposure capability, focus on all types of situations and events, effective investigation processes, and higher chances of exploring and being sensitive to contextual factors (Conger, 1998).

4.6.2 Interpretive Approach

An interpretive approach provides a sound understanding of human behaviour and culture when addressing social and event practices in an authentic setting (Tomkins and Groves, 1983; Ryan et al., 2002). This method is extensively utilised in institutionalisation research, such as those performed by Roberts and Scapens (1993) and Siti Nabiha and Scapens (2005) to perceive institutional members' behaviour and culture in the social phenomena constructed by their workplace interactions.

A case study enables researchers to practically internalise social phenomena and determine why the institution decides to implement the changes, the incorporated aspects, and how the change is induced (Scapens, 1990; Yin, 2003, Saunders et al., 2009). Parallel to Yin (2003), a case study is used to explore “how” and “why” questions on current events that the researcher exerts little or no control over. Such explorations render a case study exploratory and explanatory (Yin, 2003; Saunders et al., 2009). The current work used an interpretive approach to gauge the explanations and interpretations resulting from the information provided by institutional members, who have been subjected to the changed Shariah governance regulations for high Shariah compliance.

The interpretive single case study entailed one Malaysian Islamic bank, EMERALD, which emphasised the Shariah control functions. These functions were thoroughly explored to comprehend the institutionalisation of Shariah governance practices. In line with Creswell (1997), a multiple case study approach may generate a lack of understanding in each case. Empirical data were gathered on evolved Shariah governance from 2010 to 2021 (11 years) with the evolution of BNM GPS 1/2004, SGF 2010, IFSA 2013, and SGPD 2019, which were adhered by Malaysian Islamic banks. Some scholars deemed qualitative case study to be time-consuming, specifically when conducting the interviews. Despite requiring a long study duration to gather data, particularly during COVID-19, a case study provides extensive discussions on institutionalisation (Parker, 2012) The evolution of Shariah governance practices would gradually translate rules into routines and, ultimately, institutionalisation.

The interpretive case study also established good rapport between the researcher and institutional members during their interactions to gauge “how things should be done” and “how things are actually done” in daily operations (Ahrens et al., 2008). As social phenomena are the key focus of interpretive case study and OIE, this approach complemented the theoretical framework in this research (Burns and Scapens, 2000).

4.6.3 Data Collection Method

A qualitative researcher functions as the study instrument itself (Stake, 2010), with no statistical analysis or tools used for data derivation and analysis. Interviews, observations, and document reviews rank among the three most widely used data collection methods in qualitative research. This qualitative multi-method study used semi-structured interviews and holistic document reviews with an inductive approach, which provided a clear depiction of the data and face-to-face interactions. These data collection techniques provide

clarifications and generate novel ideas that induce knowledge from the actual context of the phenomena under investigation.

Qualitative researchers can gather multiple data sources, such as internal and external documents, archival records, formal and informal interviews, and direct and participant observations, rather than relying on single data in a single case study (Creswell, 2003). The information derived from interviews and observations in this interpretive case study served as primary data, whereas internal and external documents along with archival records, functioned as supplementary data.

The MCO imposed by the Malaysian government in order to prevent the spread of COVID-19 rendered it impossible to conduct informal interviews and observations with the Head of Shariah control functions, their team members, and other stakeholders in EMERALD. Regardless, the plan was discarded as face-to-face meetings in office buildings were prohibited under MCO. Alternatively, the individual interviews were conducted on digital platforms (Google Meet and MS Team) based on the participants' availability and consent, which was obtained via email. Gentle reminders to attend the online interview were sent through WhatsApp and email.

Although 17 to 20 people were selected as potential participants, the individuals required some time to adapt to working from home with limited office resources (e.g., files and documents) following the enforcement of MCO. Ultimately, only nine participants (five from the top management and four from the Shariah control functions) agreed to be interviewed.

4.6.3.1 Interview

Interviews allow the reiterative examination and analysis of participants' interpretations to fully comprehend the explanation derived (Stake, 2010). The qualitative insights enable researchers to easily interpret the meaning underlying participants' actions, events, as well as personal and external views and aspirations.

There are four types of interviews, namely structured, unstructured, semi-structured, and group interviews (May, 1997; Yin, 2009; Creswell, 2010). Participants in a structured interview with close-ended questions can only select answers from a set of choices rather than explain the data. Quantitative researchers typically use structured interviews to gather statistical data. Unstructured interview, also known as in-depth or focused interview, is conducted within a short period whereby researchers pose additional (previously unlisted) open-ended questions to gain clarification, confirmation, interpretation, or understanding of specific data. This type of interview is conducted conversationally in less stressful situations (Creswell, 2010). Semi-structured interview contains pre-determined open-ended questions, which are provided to participants before the interview session. The data can be interpreted and explained until both participants and researchers gain satisfaction and a sound understanding of the derived information. Finally, group interview is conducted by posing an open-ended question to people from the same field of data interest within an institution.

This study conducted semi-structured, unstructured, and group interviews to collect the empirical data (Bergman, 2008). Unlike the research data in structured interviews, those obtained from the three aforementioned types could be thoroughly interpreted to explain the phenomena of interest (Saunders, 2009). A formal interview was conducted in this study. The main points and keywords in the interview questions were disseminated to the participants via email and WhatsApp beforehand to provide an overview of the questions,

ensuring that the participants understood the questions and were prepared to show any relevant documents for review purposes.

An informal interview could also be conducted with individuals referred to by the participants. Individuals who were previously contacted may leverage their social connections to direct the researcher to potential candidates. The snowball sampling serves the purpose of identifying hidden participants or groups that are not easily accessible. As the formal interview was not conducted in EMERALD following the COVID-19 outbreak, this study could not conduct informal interviews. Nevertheless, the derived data proved sufficient to understand EMERALD's evolution and institutionalisation. Only semi-structured, unstructured, and group interviews were conducted for data collection purposes.

In this case study, EMERALD's top-level management, managers from each Shariah control function, and their team members were selected as the research participants to elicit their opinions and interactive discussions on the evolution of Shariah governance and the institutionalisation of Shariah governance practices in EMERALD. The participants' profiles were cautiously viewed with specific criteria, including the reconstruction of historical contexts via interview questions to reflect the phenomena (Siti Nabiha and Scapens, 2005; Lukka, 2007; Nor Aziah and Scapens, 2007). This study aimed to examine the evolution of Shariah governance practices based on BNM GPS 1/2004, SGF 2010, and SGPD 2019.

The interview questions were structured based on the research questions and objectives. The main research questions are as follows: (i) Why does an Islamic bank institutionalise its Shariah governance practices? (ii) How does the institutionalisation of Shariah governance practices occur? (iii) What are the control mechanisms adopted to address issues involving the institutionalisation of Shariah governance practices in the Islamic bank? The seven sections questionnaire was designed following Burns and

Scapens' (2000) framework, albeit with some modifications to suit the study coverage, purpose, and objectives.

Section one derived the participants' profiles, such as work position, tenure with EMERALD up to 2021, professional qualification, and interview duration. Table 4.1 presents the participant interview session. Section two described how EMERALD is impacted by the BNM-issued evolution of Shariah governance from BNM GPS 1/2004, SGF 2010, and IFSA 2013 to SGPD 2019. Any changes, transformations, or establishment of new rules or routines in EMERALD, with emphasis on the Shariah control functions influenced by Shariah governance evolution, were identified in this section. Section three determined the responsibilities and functions of BNM GPS 1/2004, SGF 2010, IFSA 2013, and SGPD 2019 from the perspective of EMERALD and their institutional members. The fourth section focuses on how EMERALD members interpret and understand BNM regulations, how they interact with each other and the Shariah board regarding Shariah non-compliance issues, and how Shariah-related knowledge is shared and negotiated within EMERALD. The fifth section delves into the internal working of Shariah governance practices within EMERALD by exploring the decision-making processes, the specific procedures used to ensure Shariah compliance, how Shariah knowledge and awareness are shared and developed within EMERALD, and the mechanisms for resolving Shariah non-compliance issues.

Section six disclosed the norms and values underlying EMERALD's Shariah governance, specifically in Shariah control functions. Finally, section seven scrutinised EMERALD's issues in implementing BNM-issued Shariah governance practices. The complexities underpinning the institutionalisation of Shariah governance practices via the intra-institutional realm or realm of actions by EMERALD's Shariah officers in Shariah control functions were also identified.

4.6.3.2 Participants

A total of nine individual participants were interviewed for this study. Seven interviews were conducted with seven participants, while one group interview was conducted with two participants. Overall, eight online interviews were conducted separately. The participants encompassed EMERALD's top-level and middle-level management and Shariah officers. Notably, two of them were the decision-makers in EMERALD who were accountable for providing advice and assurance on Shariah governance matters and evolution. The other three participants were team leaders for the Shariah control function, comprising Shariah officers who encoded, enacted, reproduced, and institutionalised Shariah governance practices.

In qualitative research, a researcher's methodological and epistemological stances determine the appropriate sample size (Baker and Edwards, 2012). Ragin and Becker (1992) proposed qualitative researchers to stop the study process upon eliciting repetitive information, which implies data saturation. According to Creswell (2011, p. 209), the sample size for qualitative research typically involves several individuals or cases. Sim and Lewis (2003) suggested choosing less than 50 individual interviewees as qualitative samples for a single case study. In this study, the number of participants (nine) aligned with Creswell's (2008) recommendation of 5 to 20 people for a qualitative case study. Likewise, Morse (1994) proposed a minimum of six people for a qualitative sample size.

Table 4.1 lists the nine research participants with their positions, working experience with EMERALD (up to 2021), qualifications, and duration of each interview session. Eight of them, excluding Shariah Risk Management Officer 1 (three years of working experience), had experienced the evolution of Shariah governance in EMERALD. Nevertheless, based on his explanations regarding Shariah governance practices during the interview, Shariah Risk Management Officer 1 could address the questions and relate to the evolution that occurred from GPS 1/2004 to SGPD 2019.

Practical considerations involving the officers' availability and time constraints determined the number of interviews conducted. The participants were selected via purposive snowball sampling, which deliberately considered the individuals' positions at the top and middle management levels based on their knowledge and awareness of the evolution and institutionalisation of Shariah governance practices in EMERALD.

Participant observation was planned to gather data on behaviours that occur naturally in the institutional members' professional context. Unfortunately, this observation could not be performed following the enforcement of MCO in 2020 and 2021. The Malaysian government imposed numerous restrictions on all institutions in Malaysia to limit the physical contact between institutional members and external parties to curb the COVID-19 outbreak. Only one out of the nine interviews were allowed to be conducted in EMERALD's office building.

Table 4.1 Participant Profile

No	Interviewee	Working Experience with EMERALD (up to 2021)	Qualification	Reporting to	Duration of Interview
1	General Manager	15 years	Master in Shariah Law Other Certified Islamic Finance Professional Qualifications (CIFPs)	CEO	57 minutes
2	Chief Shariah Division	10 years	MBA in Islamic Banking and Finance CIFPs	CEO	2 hours 20 minutes
3	Head of Shariah Audit Function	13 years	Degree in Accountancy CIFPs	Chief Internal Auditor	1 hour 35 minutes
4	Head of Shariah Risk Management Function	10 years	Master's in Islamic economy CIFPs	Chief Risk Management Officer	1 hour 20 minutes
5	Head of Compliance Function	14 years	Degree in Economy and Muamalat CIFP	Chief Compliance Officer	1 hour 25 minutes
6	Shariah Audit Officer 1	17 years	Degree in Accountancy CIFPs	Head of Shariah Audit Function	Shariah Audit Officers 1 and 2 attended a group interview for 1 hour 55 minutes
7	Shariah Audit Officer 2	8 years	Degree in Fiqh and Usul Fiqh CIFPs	Head of Shariah Audit Function	
8	Shariah Risk Management Officer 1	3 years	Degree in Fiqh and Usul CIFPs	Head of Shariah Risk Management Function	1 hour 16 minutes
9	Shariah Risk Management Officer 2	7 years	Degree in Islamic Banking CIFPs	Head of Shariah Risk Management Function	1 hour 25 minutes

4.6.3.3 Data Collection

The interviews were conducted interactively and conversationally from March to December 2021 over 10 months. Permission was obtained from the top management pre-interview. Meanwhile, the participants were provided with a summary of the research objectives and key points of the questionnaires prior to conducting the main interview. Each session lasted between one to two hours, depending on the issues raised by the participants. All interview sessions were voice-recorded and reverted in two days for interpretation and discussion purposes. Unclear issues or those that required clarification were highlighted to facilitate follow-up probing questions. The interviews were subsequently transcribed and documented. The transcription process for each interview was completed between two to four weeks. Overall, eight interviews were conducted with nine Shariah Officers, comprising top management, managers, and team members from each Shariah control function in EMERALD, in eight separate interview meetings. The number of interviewees was deemed appropriate in line with past works, which selected a similar sample size.

4.6.3.4 Document Review

Document reviews were conducted involving SGPD 2019, IFSA 2013, SGF 2010, BNM GPS 1/2004, annual reports, Shariah policy manual, Shariah Committee Charter, BOD Charter, audit planning memorandum, internal memos, minutes of meetings, and Shariah Committee resolutions. It served as a supplementary data collection technique in the case study, which triangulated the data collection sources. Appendix VI presents the overall sources of documents reviewed.

4.6.4 Data Analysis

The following techniques were employed to collect and analyse the primary data for this study.

4.6.4.1 *Content Analysis*

A code-based content analysis approach served to analyse the qualitative data (focus group discussion and interview transcripts and document reviews) by identifying the dominant pattern emergent from the data. This pattern was then summarised as the main and sub-themes post-analysis outcomes. Analytical strategies involving the display of data, identification of codes, reduced information, frequency of codes, and related categories were used to interpret the interview transcripts. This analysis type derives the patterns of ideas in text form (Krippendorff, 2004). The winnowing data process was performed by implementing the following analytical strategy to establish the code for this approach.

Content analysis was performed on relevant documents to confirm the interview findings and outline novel outcomes that were not derived from the interviewees. The retrieved documents were both in hardcopy and softcopy formats. Documents are used in social science studies as the only data collection technique or in combination with other methods (Sarantokas, 1998). Various details found in the documents can be appropriately used in case studies. The code-based approach entails five data analytical strategies (Creswell, 2003) as shown in Table 4.2.

Table 4.2 Analytical Strategies under the Code-based Approach

No.	Analytical Strategies	Description
1	Reduce information	Identify pattern regularities and note patterns and themes to develop categorical and thematic distinctions.
2	Identify codes	Write codes/memos, develop codes or categories, sort text or visual images into categories, and identify and compare and contrast themes (keywords and phrases).
3	Count frequency of codes	Count frequency of emerging codes, quasi statistical frequencies.
4	Relating categories	Factoring, noting relations among variables, and building a logical chain of evidence.
5	Display data	Display findings in tables, charts, diagrams, and figures, compare cases, and compare them against a standard.

The main theme was developed based on the following research question: “How do the Shariah governance practices bring about encoding, enacting, reproduction, and institutionalisation in Islamic banks?”. To address the research question, the current processes (SGPD 2019) of Shariah audit function, Shariah compliance function, and Shariah risk management function under Shariah control functions were considered in the context of EMERALD. The sub-theme was previously developed from the document review of SGPD 2019 using thematic analysis, with emphasis on the Shariah control function section. The description for each sub-theme was further elaborated to assist the cross-sectional content analysis process for codes under Theme 1, Theme 2, and Theme 3. The document review and thematic analysis results are presented in summary form in Table 4.3, Table 4.5, and Table 4.7, respectively.

Table 4.3 Document Review and Coding for THEME 1 - Shariah Audit Function (SGPD 2019)

Sub-theme	Description
Audit Methodology	Establish an audit methodology to assess the risk profile and vulnerabilities of each auditable area.
Communicating Result	Communicate results to the board and Shariah Committee through an audit report, detailing the audit findings and recommendations for rectification measures and the auditee's responses and action plans.
Development of Audit Plan	Generate an audit plan for the assignments to be performed.
Provide Audit Programme	Establish documented audit programmes that guide the internal auditors in gathering information, auditing procedures, and audit assessment.

The cross-sectional content analysis for the interview transcripts was performed with NVivo 14, a computer-aided qualitative data analysis software. Table 4.4 presents part of the cross-sectional content analysis for Theme 1 on Shariah audit function. The relevant information was extracted from the transcribed interview data and was deduced to match the sub-theme while simultaneously having the codes identified and developed through the coding process. Figure 4.3 depicts the analysis performed using NVivo 14 for Theme 1. Similar process was done for Theme 2 on Shariah compliance function (see Table 4.6 and Figure 4.4) and Theme 3 on Shariah risk management function (see Table 4.8 and Figure 4.5).

Table 4.4 Part of the Cross-sectional Content Analysis Process for Codes under Theme 1

	Shariah Audit Function			
	Audit Methodology	Audit Programme	Audit Plan	Communicating Result
Head of Shariah Audit Function	In Shariah auditing, there is a concept of audit universe. Audit universe refers to a list of auditable entities. Auditable entities are the divisions and departments that are subject to Shariah audit. Once the audit universe is established, a scoring assessment is conducted.	The checking will be done according to the audit program, but it will not be as detailed as the checking that we do ourselves. The focus is different. We use the SGF 2010 accumulation as a guide for checking only.	APM stands for audit planning memorandum. When we want to conduct an audit, we will do planning. One of the planning tasks is to prepare the audit planning memorandum.	Shariah auditors need to consult with Shariah officers on Shariah compliance and non-compliance issues. When we meet with our boss, we should highlight our discussion with the Shariah officers. We still maintain our own judgment and do not need to follow the Shariah officers' opinion if we disagree.
Shariah Audit Officer 1	Shariah audits are conducted annually, but not necessarily the same divisions or audit centres each year.	We need to determine whether the product is in line with Shariah requirements, which are in line with the bank's decisions and the requirements of other banks.	Sometimes, when we conduct audits, the SC paper or SC minutes are released late. So, we will miss one of the Shariah Committee's decisions, which we need to see to determine what needs to be implemented by the audit entity or division. So, this may be one of the challenges.	Currently, we are fully under the Internal audit division. However, before SGF 2010, there was no dedicated Shariah audit division.
Shariah Audit Officer 2	So, based on the risk assessment parameters that have been developed, there are some divisions that are high risk, and we will perform Shariah audits on them annually.	If they have not met the requirements, they will declare this gap analysis to Bank Negara, stating that this one is still in progress and that one needs to be updated with a target date to Bank Negara on when it will be completed. So, as auditors, we will look at the gap analysis to determine what to audit.	The use of technology is already there. I agree that we should use technology for auditing, so instead of physically checking new accounts one by one, we can go straight to the data and see if it is related to any issues or if it does not comply with the terms and conditions.	When it comes to the reporting line, we report to the CIA rather than to management.

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Figure 4.3 Summary of Content analysis performed using NVivo 14 – Theme 1

Table 4.5 Document Review and Coding for THEME 2 - Shariah Compliance Function (SGPD 2019)

Sub-theme	Description
Compliance	Identify, assess, and monitor the compliance of business operations and activities with Shariah.
Providing updates	Inform and provide updates to the board, Shariah Committee, and senior management on the latest developments in legal and regulatory requirements within Islamic finance, specifically in relation to the issuance of Shariah Advisory Council rulings.
Reporting on a regular basis	Report to the board, Shariah Committee, and senior management regularly on Shariah non-compliance issues and findings.
Training and guidelines	Ensure that adequate training and guidance on relevant Shariah requirements governing the operations, business, affairs, and activities are provided to the officers.

Table 4.6 Part of the Cross-sectional Content Analysis Process for Codes under Theme 2

	Shariah Compliance Function				
	Compliance	Updates	Reporting	Guidelines	Training
Head of Compliance Function	During the development of the annual plan for the review process, we go to the Chief Compliance Officer for advice and support in terms of initiatives and views on Shariah issues. This helps us to clarify Shariah matters during the review process. Previously it took more time to do the compliant review process as we have to refer to many sources regarding SNC issues. To ensure Shariah compliance in any activities, events, products or process itself are very important.	We usually update monthly SNC issues, but we do not immediately update the resolution. We usually conduct a preliminary survey (short research) to identify SNC issues. We use BNM guideline to identify SNC issues. If the issue has a negative impact on bank products, we need to update the board, SAC, and management.	We need to table the Shariah non-compliant event to the Shariah Committee and the Chief Compliance Officer. Previously under SGF 2010, we reported to the Shariah Division. When BNM issued SGPD 2019, there was an institutional restructuring, and we became an independent function and reported directly to the Compliance Division.	Since 2011, according to SGF 2010, we have had a Shariah review guideline for the review process. The guideline has been constantly evolving as we revise it to keep up with the current situation in the industry. We have revised the guideline 6 times so far. Now, after the issuance of SGPD 2019, the compliance function has its own standard methodology (Compliant Risk Assessment Methodology) to assist in review processes and developing plans.	We also need to make sure that our staff receive adequate training specifically related to Shariah matters. We need to ensure that adequate training is provided, but we do not have to deliver the training ourselves. We will identify whether staff need training and in what areas when we conduct our reviews. We will suggest the types of training, and the bank will fully support it financially.

The cross-sectional content analysis for the interview transcripts was performed with NVivo 14, a computer-aided qualitative data analysis software. Table 4.6 depicts part

of the cross-sectional content analysis for Theme 2 on Shariah compliance. Relevant information was extracted from the transcribed interview data and was deduced to match the sub-theme while simultaneously having the codes identified and developed through the coding process.

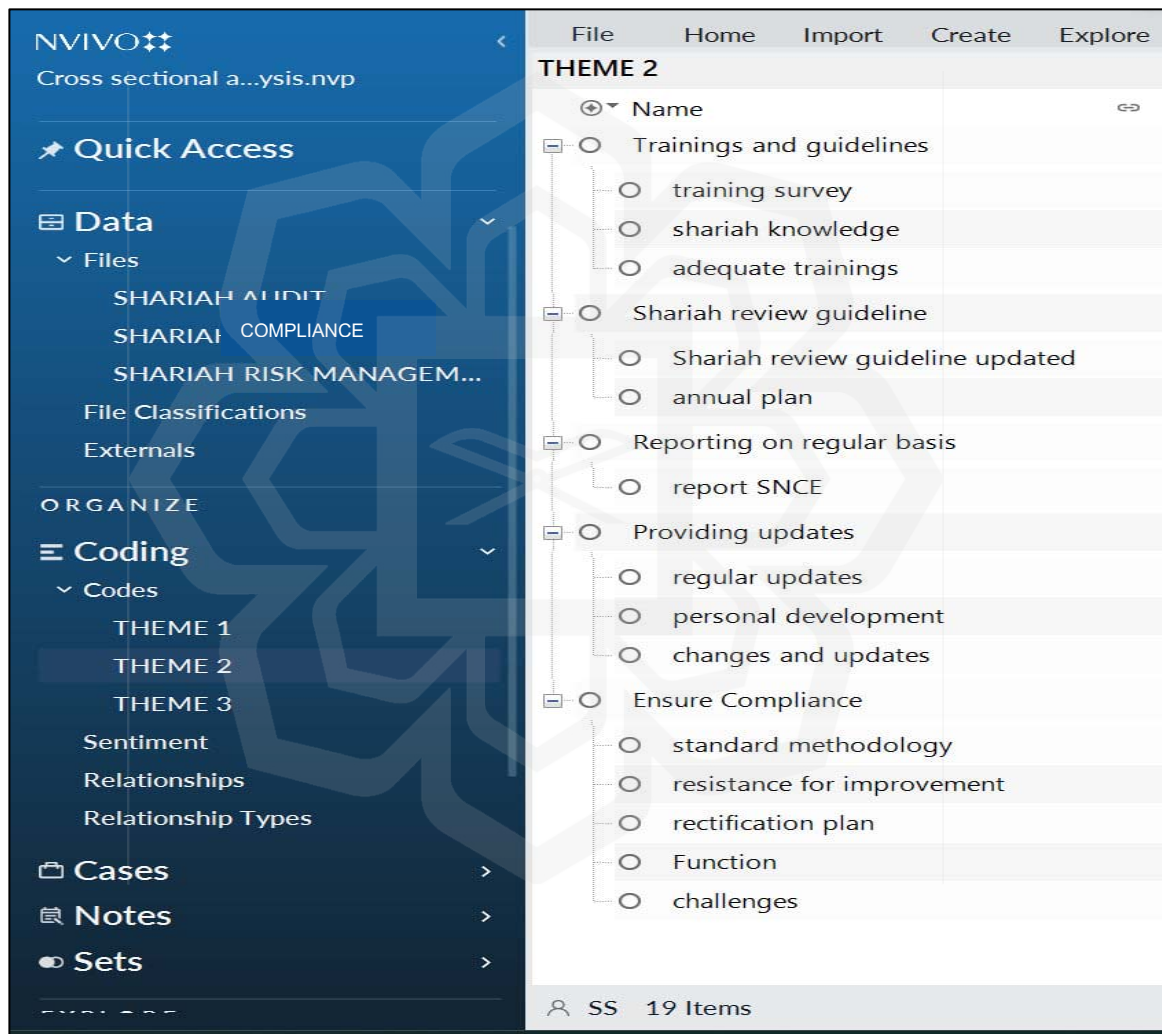


Figure 4.4 Summary of Content analysis performed using NVivo 14 – Theme 2

Table 4.7 Document Review and Coding for THEME 3- Shariah Risk Management Function (SGPD 2019)

Sub-theme	Description
Shariah non-compliance integration	Integrate Shariah non-compliance risk considerations with enterprise-wide risk management.
Shariah non-compliance identification	Identify Shariah non-compliance risk exposures in business operations and activities.
Shariah non-compliance assessment and measurement	Assess Shariah non-compliance risk and measure the potential impact of risk exposures.
Develop mitigation measures	Establish appropriate risk mitigation measures according to the identified risk types and levels.
Monitor Shariah non-compliance	Closely monitor both Shariah non-compliance risk exposures and the effectiveness of risk mitigation measures.
Reporting of Shariah non-compliance	Report to the board, Shariah Committee, and senior management on the Shariah non-compliance risk exposures.
Developing constructive decision	Constructively challenge decisions that may give rise to Shariah non-compliance risks to identify and assess Shariah non-compliance.

The cross-sectional content analysis for the interview transcripts was performed with NVivo 14, a computer-aided qualitative data analysis software. Table 4.8 depicts part of the cross-sectional content analysis for Theme 3 on Shariah risk management function. Relevant information was extracted from the transcribed interview data and was deduced to match the sub-theme while simultaneously having the codes identified and developed through the coding process.

Table 4.8 Part of the Cross-sectional Content Analysis Process for Codes under Theme 3

Shariah Risk Management Function							
	SNC integration	SNC identification	SNC assessment	SNC mitigation	SNC monitoring	SNC reporting	SNC challenge
Head of Shariah Risk Management Function	Shariah non-compliance risk is actually part of opportunity risk. Opportunity risk is under the Risk Management Division. So, we work together under the same division. The difference is that we are responsible for Shariah non-compliance risk.	In the EMERALD Annual Report, we report excessive events related to Shariah issues that we have identified, along with the factors that caused these excessive risks.	So, we use the same tool as opportunity risk management to assess SNC events. In fact, Shariah non-compliance risk is a subset of opportunity risk.	The rectification plan is to rectify the SNC events that are occurring in the bank's current operations. The SNC risk is actually the important thing that we need to identify. Because we want to mitigate the SNC risk.	Perhaps among other things, we can hold a town hall. The town hall is a training session that we hold with all branch managers to provide exposure to SNC events and risks. This is important so that monitoring of SNC events can be done better.	Previously, under SGF 2010, our reporting line went directly to the Shariah Committee. However, under SGPD 2019, our reporting line goes directly to the management risk committee.	It is difficult to differentiate between opportunity risk events and SNC events. Because there are some scenarios where we feel that "this thing is indeed Shariah, and it is also Opportunity risk", or vice versa.
Shariah Risk Management Officer 1	The requirements that the SNC risk management team uses to identify SNC risk are Shariah requirements. However, the tools, procedures, and processes that the team uses are	One of the tools that the team uses is document review. The team reviews internal and external documents to identify potential SNC events.	Once the team has identified a potential SNC event, they conduct a risk control self-assessment (RCSA) to assess the SNC risk from the perspective of gaps. For example, if there is a loss event, the team will include the loss event or findings in the RCSA to	Corrective actions are important to fix what is wrong. For example, if a customer has not signed the Aqad form, the corrective action would be to call the customer to the bank to sign the form. This is one way to mitigate SNC risk.	We need to review the existing products and highlight the related risks based on the applicable guidelines. For example, from the Tawarru' perspective, we need to highlight the risks associated with Tawarru' for Ar-Rahnu. For example, non-execution of Tawarru' commodity trading. This is when we do Tawarru', but we do not actually execute the	Based on the RCSA results, we will highlight the five major risks to present to the Shariah Committee, top management, and board committee.	Not executing or, in other words, not following the procedures given for one's work process is also one of the challenges that can lead to SNC events.

	the same as those used by the risk management division.		identify ways to mitigate the risk.		Tawarru' trading. This is not Shariah-compliant. This is one of the ways we monitor products in the bank.		
Shariah Risk Management Officer 2	Whether under SGF 2010 or SGPD 2019, SNC risk is a subset of opportunity risk. When the institutional structure was changed under SGPD 2019, we were placed under the risk management division. We align our daily tasks or processes with operational risk.	We have Shariah-compliant guidelines that we use to identify SNC risk or to determine whether a case in EMERALD is related to a Shariah non-compliance event.	After the SNC event is identified, the next step is to control the SNC event so that the risk from this event can be reduced or mitigated. Therefore, the SNC event will go through the risk control self-assessment (RCSA) process to identify and evaluate the associated risk.	If a loss event from SNC has been identified, corrective and preventive actions must be implemented to ensure that the SNC risk that occurred does not happen again.	We conduct monthly monitoring and reporting of rectification progress. We keep track of the rectification progress in the bank every month, and it can sometimes take up to a year to resolve SNC events. This means that we keep track of the progress every month and then present on the progress to the Shariah Committee and the operational committee.	Initially, under SGF 2010, we had two reporting lines: we reported to the Chief Risk Officer and the Chief Shariah Officer. However, after BNM issued SGPD 2019, we only report directly to the Chief Risk Officer.	When we find a risk or Shariah issue, we will argue whether or not it is a Shariah issue, because the requirement in the Shariah division does not mention the related issue, and there is no internal precedent. Therefore, before we confirm it as SNC, if the issue is in doubt, we call for a meeting with the Head of Shariah, Head of SRM, Head of Audit, and Head of Shariah Compliance. They can constructively challenge that decision.

THEME 3			
Name	Files	Relationships	
SNC assessment	0	0	
assessment tools	1	2	
investigation	3	6	
RCSA tools	1	12	
risk notification	1	1	
risk control assessment	3	7	
SNC challenge	0	0	
challenges	3	15	
validation of SNC	1	2	
SNC identification	0	0	
document review	2	9	
risk exposure	2	3	
SNC Integration	0	0	
Risk management division	2	5	
SNC mitigation measures	0	0	
corrective action	2	4	
preventive action	2	6	
rectification plan	2	4	
SNC monitoring	0	0	
review SNC	3	5	
SS 25 Items			

Figure 4.5 Summary of Content analysis performed using NVivo 14 – Theme 3

4.6.4.2 Cognitive Mapping

Cognitive mapping is a technique used to structure incongruent or complex data, construct ideas, and identify their interconnections (Eden and Ackermann, 1998). A map can be a robust means of analysing and presenting large-scale qualitative data and planning the

following steps in identifying areas where more information is needed (Easterby-Smith et al., 2003). Hence, cognitive mapping graphically represents one's understanding of a specific issue or domain (Spicer, 2000), which provides a sound understanding and insights for the researcher if elicited properly. Content analysis identifies concepts by developing codes, while cognitive mapping explores the relationships between concepts are depicted through a visual representation.

A cognitive map for Theme 1: Shariah Audit Function (see Figure 4.6) is based on content analysis done from the interview data with EMERALD's Head of Shariah audit and Shariah audit officers 1 and 2. The map highlights the structured approach used in the audit process to ensure adherence to Shariah compliance and effective risk management. The audit process revolves around four key components: audit methodology, audit plan, communicating result, and audit programme, to improve the effectiveness of the Shariah audit function. This mapping shows the connection of the four key components to reflect the institutionalisation of EMERALD's Shariah governance practices, ensuring accountability, risk mitigation, and strict adherence to Shariah principles within the institution.

The cognitive map for Theme 2: Shariah Compliance Function (see Figure 4.7) is based on content analysis done from the interview data with the Head of Shariah Compliance Function at EMERALD. The map highlights the structured approach to ensuring Shariah compliance within the institution. It consists of five key components: compliance, reporting, training, updates and guidelines, to ensure proper and strict Shariah compliance in EMERALD's operations. This mapping shows the linking of the five key components to ensure Shariah governance practices are effectively and continuously improved and embedded within EMERALD's operations, strengthening the institution's dedication to Shariah compliance.

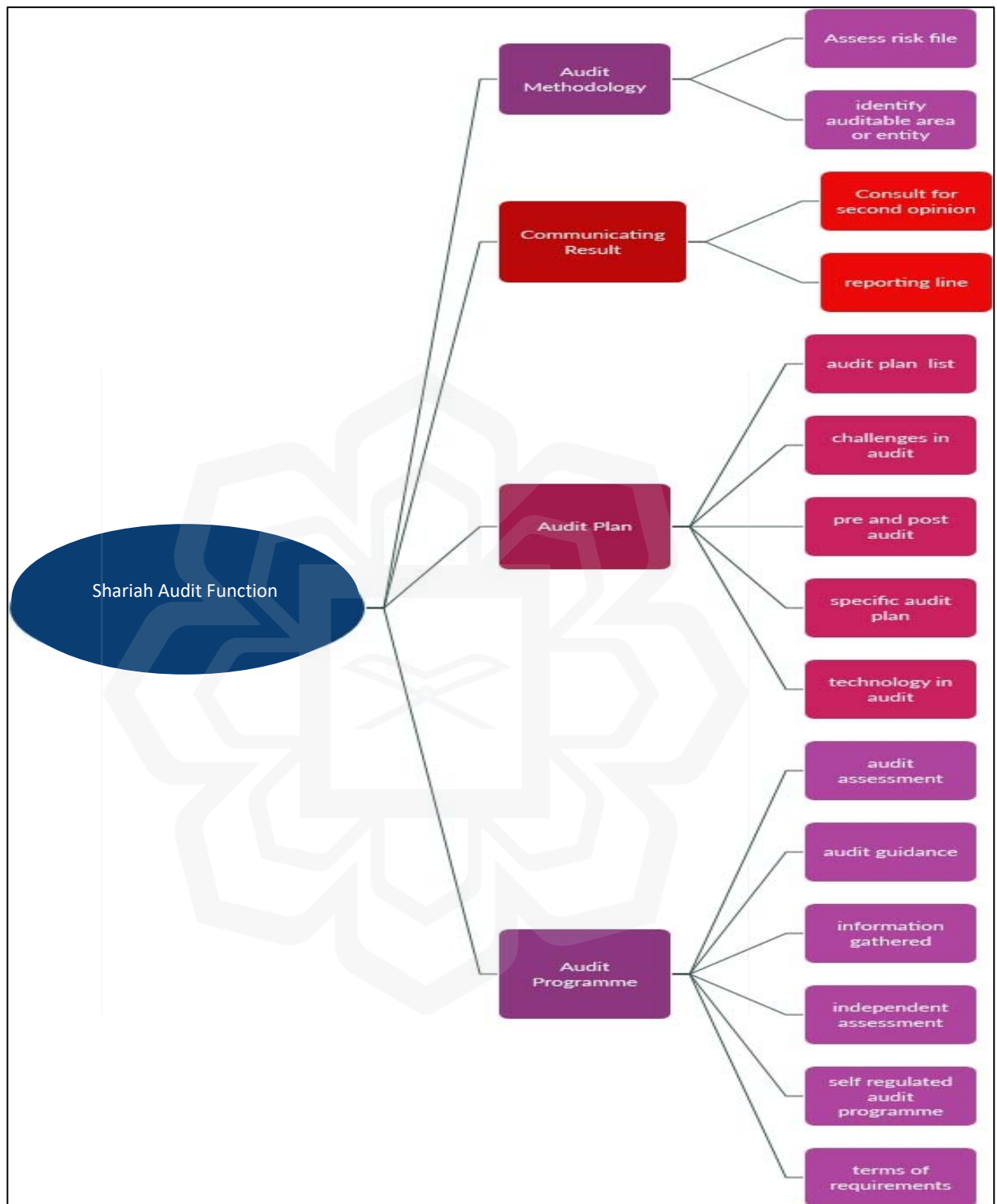


Figure 4.6 Cognitive Mapping developed using NVivo 14 – Theme 1

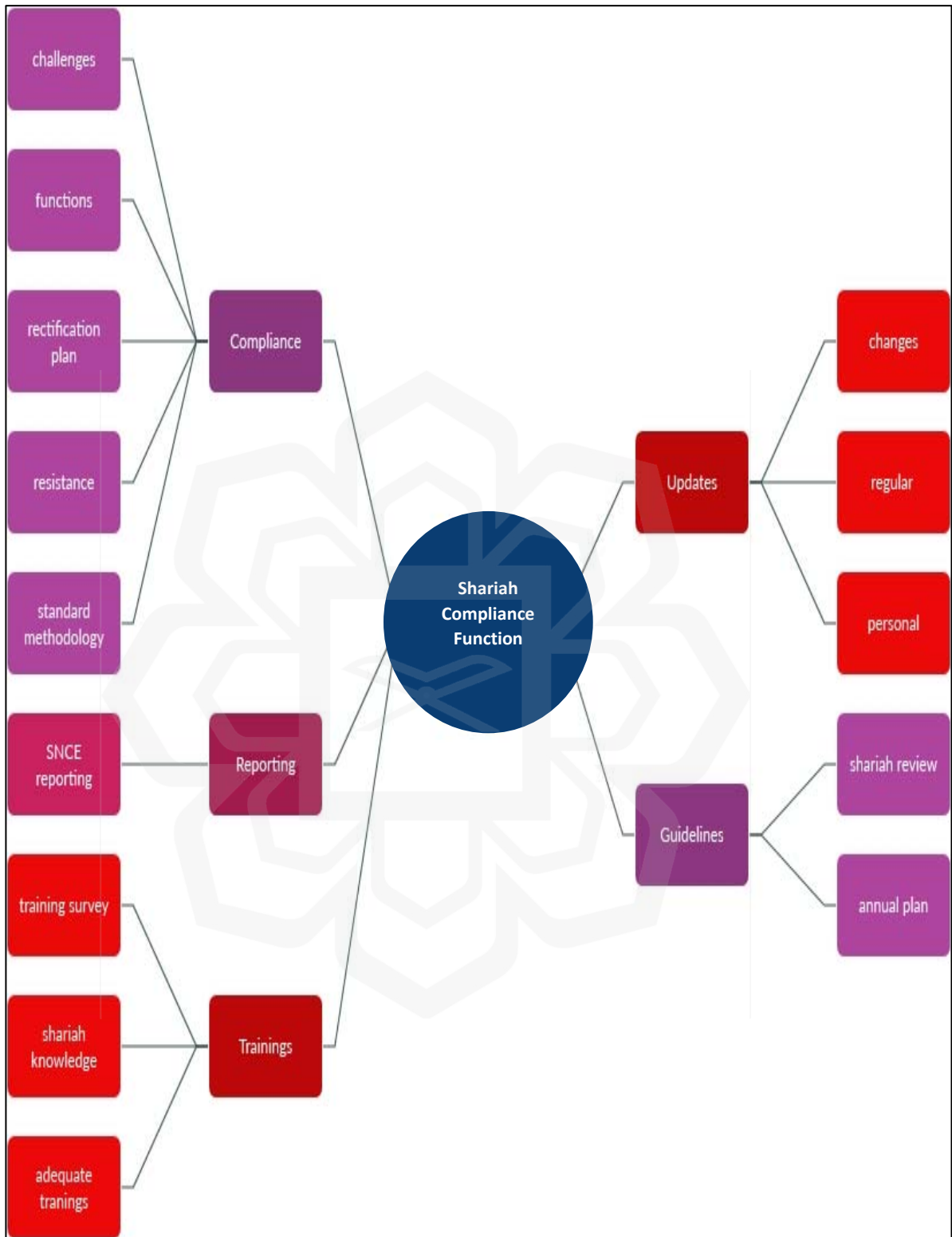


Figure 4.7 Cognitive Mapping developed using NVivo 14 – Theme 2

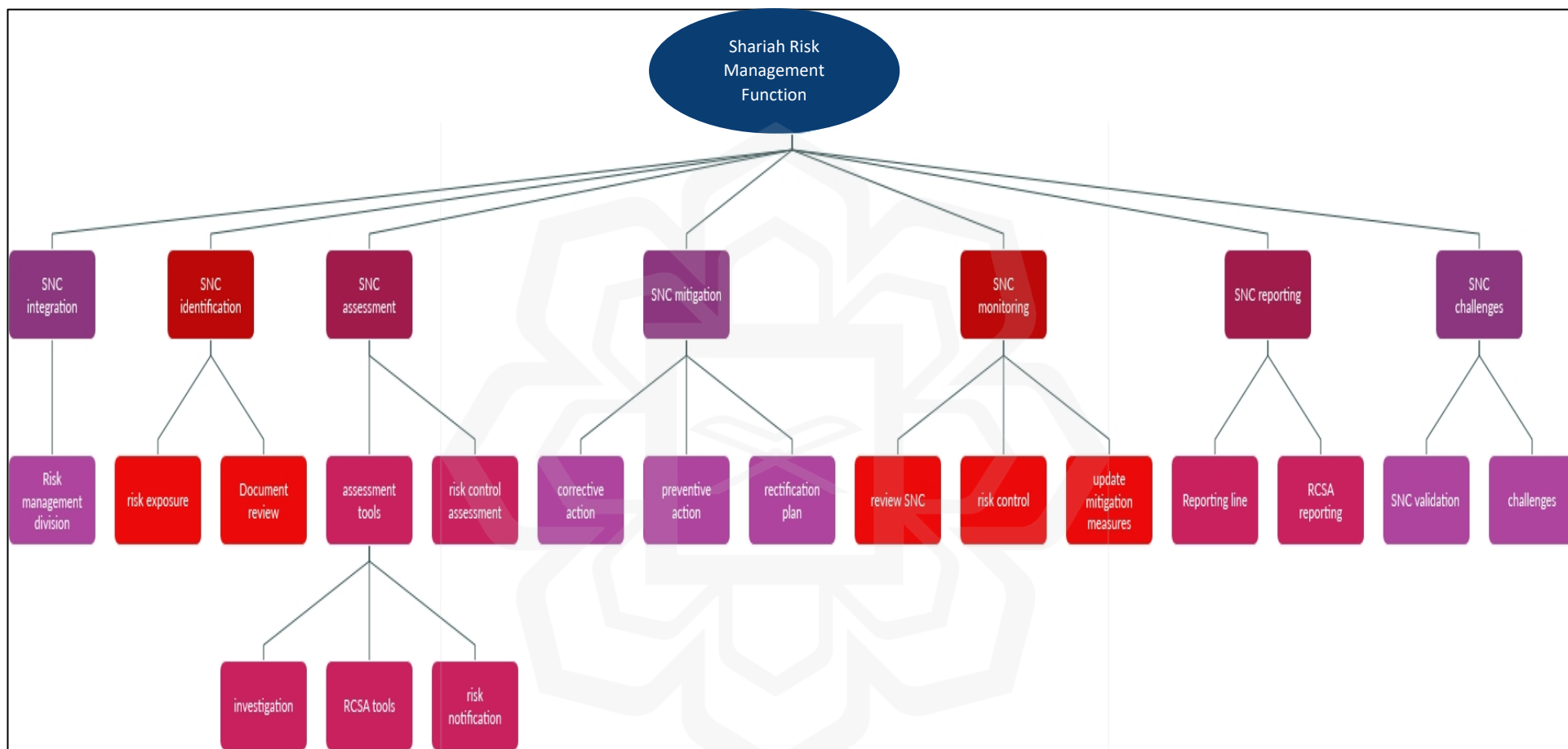


Figure 4.8 Cognitive Mapping developed using NVivo 14 – Theme 3

The cognitive map for Theme 3: Shariah Risk Management Function (see Figure 4.8) is based on content analysis done from the interview data with EMERALD's Head of Shariah risk management and Shariah risk management officers 1 and 2. It consists of seven key components: Shariah non-compliance integration, identification, assessment, mitigation, monitoring, reporting and challenges ensuring a proactive Shariah risk management framework in EMERALD. This mapping shows the connection of the seven key components to ensure systematic risk identification, mitigation, and continuous monitoring, emphasizing EMERALD's commitment to Shariah governance practices and compliance.

4.6.4.3 Use of NVivo Software for Qualitative Data Analysis

NVivo 14 is a software commonly used to perform efficient qualitative data management. It facilitates the systematic storage, access, and analysis of data, thus saving researchers from analysing and manipulating the abundance of qualitative data with a 'trial and adjust' method to draw appropriate conclusions. In this study, NVivo 14 was employed to manage and perform content analysis and cognitive mapping of the data and information derived from the interviews using the 'Maps' application.

4.6.5 Data Saturation and Research Validity

The outcome or contextual validity of a case study can be improved with multiple data sources, such as interviews and document reviews (Scapens, 1990), allowing the researcher to perform and attain data triangulation and saturation (Shank, 2002; Denzin, 2006). Triangulation entails researchers exploring the same phenomena from various angles for data confirmation purposes (Denzin, 2006). Between-methods triangulation integrates

various results from interviews and archival data collections (Smith, 2014), while data triangulation of a single case study is performed for verification.

Bernard (2012) highlighted the impossibility of quantifying the number of interviews needed for data saturation in qualitative research and proposed the need to include the interviews of participants who were not previously listed via snowballing. The collected data is said to have attained saturation when the enriched data obtained through interviews addressed the research questions (Fusch and Ness, 2015) and the researcher has gained satisfaction and understanding about the participants' interpretation and its fulfilment of the research objective. Overall, research validity and reliability increase with triangulation.

4.6.5.1 Data Triangulation

Triangulation is essential in qualitative research. Multiple resources of triangulation can prove that the collection of saturated data corroborates the findings, thus strengthening the reliability and validity of the study. Table 4.9 shows part of the routinisation of the rules in EMERALD, with interview data and document review being the two data sources gathered and used in this study. Triangulation of data from both sources was done to achieve reliability and validity. This involved reviewing the bank's annual reports, Shariah Policy Manual, Shariah Committee Charter, BOD Charter, Audit Planning Memorandum, internal memos, minutes of meetings, and Shariah Committee resolutions.

Meanwhile, the transcribed interview data were analysed using thematic analysis and content analysis. The data triangulation results were consistent and supported the findings. For example, EMERALD annual reports from 2014 to 2021 stated the mandatory requirements and penalties while the interview data corroborated the findings, thus highlighting the participants' awareness of the compulsory requirement and penalty. Overall, Table 4.9 shows the routinisation of rules in EMERALD that led to data saturation and coined the institutionalisation of Shariah governance practices in EMERALD. Routinisation of rules in EMERALD is discussed further in detail under Chapter Six to clarify on how formalised rules are adapted into daily operations in EMERALD.

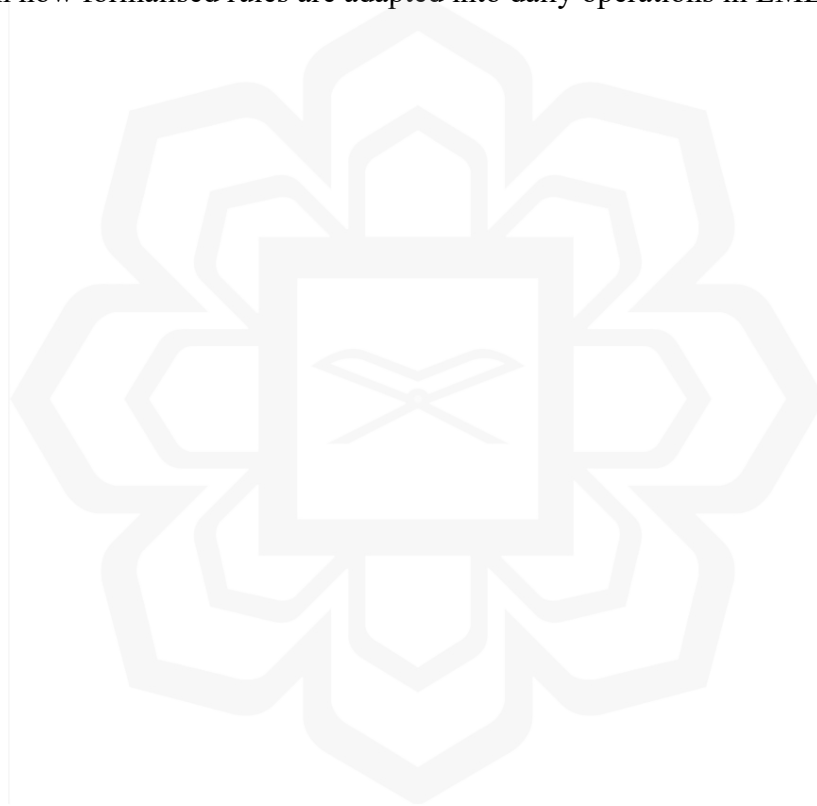


Table 4.9 Routinisations of Rules in EMERALD

Rules	Routines						
Document Review	Routinisation Evidence (Interview Data)	Routinisation Evidence (Document Review)					
		Annual Report	Shariah Policy Manual (SPM)	Shariah Committee Charter	BOD Charter	Audit Planning Memorandum (APM)	Internal Memos/Minutes of Meetings/ SC Resolution
SGF 2010	The first regulatory guideline specifically designed to ensure Shariah compliance. The institution's structure change. Now we have Shariah control function to focus on Shariah compliance.	Annual Report 2012 showed the changes according to SGF 2010.	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes in yearly planning according to requirement SGF 2010
Changes in Institutional Structure	So, when BNM came for the Shariah Review Process post-SGF 2010, they commented on the reporting line that changed the internal structure of EMERALD. In terms of the reporting line, the Shariah Audit officers under the Internal Audit Division reported to the Chief of Internal Auditor, who then directly reported to the Audit committee.	Annual Report 2012 showed the changes according to SGF 2010.	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010
4 Shariah Control Function:	During GPS 1 issuance, there is still no control function yet, so now is what we call as an evolution.	Annual Report 2012 started to show the changes according to SGF 2010.	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010

Shariah Review	Since 2011, according to SGF 2010, we have had a Shariah review guideline for the review process.	The control functions responsibilities stated in Annual report	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010
Shariah Audit	Let's refer to this briefing session slides, the Internal Audit Division Institutional chart shows clearly here, we are under Internal Audit Division. We are not under Shariah Division, so, in terms of the progression from SGF 2010. There is no dedicated Shariah Audit team during that time and when SGF 2010 came into the picture, then only the function of Shariah Audit was created.	The control functions responsibilities stated in Annual report	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010
Shariah Risk Management	Previously, under SGF 2010, our reporting line went directly to the Shariah Committee. Initially under SGF 2010, we had two reporting lines: we reported to the Chief Risk Officer and Chief Shariah Officer.	The control functions responsibilities stated in Annual report	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010
Shariah Research	When BNM issued SGOD 2019, Shariah research under SGF 2010 has been replaced with Secretariat to the Shariah Committee	The control functions responsibilities stated in Annual report	Each Shariah control functions started to have own SPM.	Not applicable under SGF 2010	Applicable under SGF 2010 and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGF 2010	Stated the changes according to requirement SGF 2010

Rules	Routines						
Document	Routinisation Evidence (Interview Data)	Routinisation (Document Review)					
		Annual Report	Shariah Policy Manual	Shariah Committee Charter	BOD Charter	Audit Planning Memorandum	Internal Memos/Minutes of meeting/ SC Resolution
SGPD 2019	The most recent Shariah governance was issued by BNM in 2019 to replace the 2010 version. To comply with and close the gap, an enhancement on manual, process, rules, and documentation in the bank will be done, including the reporting line. We will need to come out with a new manual or policy, for example, the Charter for SC. Because earlier, there's no requirement to have a Charter for SC in GPS 1 or SGF 2010, but when BNM issued SGPD 2019, they made it compulsory for us to have a Charter for SC. Yes, it's true that when we do an audit, we have our Audit Planning Memorandum, APM. A very detailed planning was done earlier.	Annual Report 2018 and 2019 (complied to ED2017 requirements)- stated the changes according to ED 2017. Annual Report 2020 and 2021(complied to SGPD 2019)- stated the changes according to SGPD 2019	Each Shariah control functions have own guideline manual based on SPM.	First time developing comply requirement under SGPD 2019	Applicable under SGPD and stated the changes in reporting line and structure.	Showed the changes in yearly planning according to requirement SGPD 2019	Stated all changes according to requirement SGPD 2019
Shariah Committee (SC)	Currently, there are not many SC in the industry, of we delay our action, we have to compete with the other banks in getting experience SC.	Annual report 2020 and 2021 mentioned the SC Charter as a guideline to SC.	As a reference to SC	Applicable under SGPD 2019	Applicable under SGPD and stated the changes in reporting line and structure.	Not related	Stated the changes according to requirement SGPD 2019

	So, if the Board of Directors has its own Charter, SC should also have one.						
Changes in Institutional Structure	The working environment will no longer be the same. An independent single reporting line is mandatory under SGPD 2019 to harmonise the practices and culture, whether you like it or not, you have to follow it.	The Annual Report 2018 to 2021 showed the changes of structure and reporting line in institutional structure.	Each Shariah control functions have own guideline manual based on SPM.	Applicable under SGPD 2019	Applicable under SGPD 2019 and stated the changes of reporting line and structure.	Showed the changes in yearly planning according to requirement SGPD 2019	Stated the changes according to requirement SGPD 2019
3 Shariah control function:	This makes EMERALD different and unique from other Islamic Financial Institutions, all the control functions became independent functions following the BNM-issued SGPD 2019.	The annual Report 2018 to 2021 showed the changes of structure and reporting line in institutional structure complied to SGPD 2019 requirement.	Each Shariah control functions have own guideline manual based on SPM.	Applicable under SGPD 2019	Applicable under SGPD 2019 and stated the changes of reporting line and structure.	Showed the changes in yearly planning according to requirement SGPD 2019	Stated the changes according to requirement SGPD 2019
Shariah Compliance	It has been 1 year (in 2020) since the change to Shariah compliance, and we can perform the task given to us with the help of this support working group which helps us to come with more ideas and suggestions.	The control functions responsibilities stated in Annual report 2018 to 2021	Each Shariah control functions have own guideline manual based on SPM.	Applicable under SGPD 2019	Applicable under SGPD 2019 and stated the changes of reporting line and structure.	Showed the changes in yearly planning according to requirement SGPD 2019	Stated the changes according to requirement SGPD 2019
Shariah Audit	Until now, SGPD 2019, the Shariah Audit is still under Internal Audit Division. There are no changes.	The control functions responsibilities stated in Annual report 2018 to 2021	Each Shariah control functions have own guideline manual based on SPM.	Applicable under SGPD 2019	Applicable under SGPD 2019 and stated the changes of	Showed the changes in yearly planning according to	Stated the changes according to requirement SGPD 2019

	The APM has been executed annually from the issuance of SGF 2010 to SGPD 2019.				reporting line and structure.	requirement SGPD 2019	
• Shariah Risk Management	We are not under Shariah Division, so, in terms of the progression from SGF 2010, now we have merge with Risk management division.	The control functions responsibilities stated in Annual report 2018 to 2021	Each Shariah control functions have own guideline manual based on SPM.	Applicable under SGPD 2019	Applicable under SGPD 2019 and stated the changes of reporting line and structure.	Showed the changes in yearly planning according to requirement SGPD 2019	Stated the changes according to requirement SGPD 2019
Secretariat	I'm grateful that, I can focus more on Secretariat matters which need a lot of changes as required by SGPD 2019.	The Secretariat responsibilities to assist SC's duties and functions stated in Annual report 2018 to 2021	Stated the Secretariat responsibilities to assist SC's duties and functions.	Stated the Secretariat responsibilities to assist SC's duties and functions.	Stated the Secretariat responsibilities to assist SC's duties and functions.	Stated the Secretariat responsibilities to assist SC's duties and functions.	Stated the Secretariat responsibilities to assist SC's duties and functions.
Rules	Routines						
(Document Review)	Routinisation Evidence (Interview Data)	Routinisation Evidence (Document Review)					
		Annual Report	Shariah Policy Manual	Shariah Committee Charter	BOD Charter	Audit Planning Memorandum	Internal Memos/Minutes of meeting/ SC Resolution
IFSA 2013	If you fail to comply, you will be penalised., Except in executing the function, we have our own Shariah requirement compulsory with a penalty to be complied with as per IFSA 2013.	The Annual Report 2014 to 2021 stated the mandatory requirement and penalty to be complied.	Stated the mandatory requirement and penalty to be complied.	Stated the mandatory requirement and penalty to be complied.	Stated the mandatory requirement and penalty to be complied.	Stated the mandatory requirement and penalty to be complied.	Stated the mandatory requirement and penalty to be complied with in relation to the situation.

4.7 SUMMARY

Essentially, this study emphasised Shariah officers' rules and routinisation of Shariah governance practices. Closed interactions with the Shariah officers were necessary to fulfil the study objective, which aimed to explain the evolution of Shariah governance and institutionalisation of Shariah governance practices following the evolution of Shariah governance regulations. As members received the (encoded) rules and routinised (enacted) them to become institutionalised, their subjective actions, behaviour, responses, challenges, pressures, and institutionalisation can be understood with a holistic inquiry (Murray, 2004). This qualitative method was deemed more suitable than quantitative research (Conger, 1998). An interpretive approach provides a sound understanding of human behaviour, culture, and social practices in an authentic setting (Tomkins and Groves, 1983; Ryan et al., 2002). Notably, institutionalisation studies performed by Roberts and Scapens (1993), Siti Nabiha and Scapens (2005), Norhayati and Siti Nabiha (2009), and Hasbolah et al. (2018) used this approach to perceive institutional members' behaviour and culture in social phenomena, which were constructed by their workplace interactions. From a scholarly perspective, interpretive case studies are time-consuming, specifically those involving interviews and observations. Despite the prolonged data collection period in this study, the elicited information soundly justified institutionalisation (Parker, 2012).

This case study approach allowed both the researcher and institutional members to develop a good rapport over time during their interactions and gauge how rules and routines are performed in daily operations (Ahrens et al., 2008). The approach also adhered to OIE in Burns and Scapens' (2000) framework, which was adapted in the theoretical framework. Perceivably, both interpretive case studies and OIE prioritised social phenomena (Burns and Scapens, 2000). This case study selected EMERALD's top-level management, managers from each Shariah control function, and their team members as the participants. The researcher engaged with these personnel to elicit pivotal views and conduct dynamic

discussions on the institutionalisation of Shariah governance practices in EMERALD. Specifically, semi-structured, unstructured, and group interviews served as the data collection technique in this study. Data triangulation was performed and corroborated with the findings, thus strengthening the reliability and validity of this study.

As this study explored the evolution of Shariah governance before SGF 2010 until SGPD 2019, the participants' profile criteria, including the reconstruction of the historical context, were carefully reviewed through interview questions to reflect the phenomena of interest (Siti Nabiha and Scapens, 2005; Lukka, 2007; Nor Aziah and Scapens, 2007). The interview questions were structured based on the research questions and objectives. The primary research questions are as follows: (i) Why does an Islamic bank institutionalise its Shariah governance practices? (ii) How does the institutionalisation of Shariah governance practices occur? (iii) What are the control mechanisms adopted to address issues involving the institutionalisation of Shariah governance practices in the Islamic bank? The overall research process demonstrated the extent of the quality and originality of this study through data triangulation.

The seven sections in the questionnaire were designed following Burns and Scapens' (2000) framework, albeit with some modifications to suit the research purpose. These sections are explained as follows:

- i. The first section focuses on the participants' profiles, such as job designation, working experience, professional qualification, work specification, and level of involvement in EMERALD.
- ii. The second section describes how EMERALD is impacted by the evolution of BNM-issued Shariah governance. Any changes affected by this governance are duly determined.

- iii. The third section determines the roles and functions of BNM GPS 1, SGF 2010, IFSA 2013, and SGPD 2019 as gauged by the EMERALD members.
- iv. The fourth section focuses on how EMERALD members interpret and understand BNM regulations, how they interact with each other and the Shariah board regarding Shariah non-compliance issues, and how Shariah-related knowledge is shared and negotiated within EMERALD.
- v. The fifth section delves into the internal working of Shariah governance practices within EMERALD by exploring the decision-making processes, the specific procedures used to ensure Shariah compliance, how Shariah knowledge and awareness are shared and developed within EMERALD, and the mechanisms for resolving Shariah non-compliance issues.
- vi. The sixth section discloses the norms and values underpinning Shariah governance.
- vii. The seventh section examines the complexities encountered by EMERALD on BNM-issued Shariah governance adoption.

The following chapter presents the case findings, offering in-depth empirical findings insights into how the theoretical framework and concepts are manifested in practice. These findings not only describe what has actually happened in EMERALD but also explore the underlying influences that shape the institutionalisation of Shariah governance practices in Malaysian Islamic banks.

CHAPTER FIVE

CASE FINDINGS

5.1 INTRODUCTION

This chapter outlines the interview findings from the case study on the institutionalisation of Shariah governance practices in EMERALD, an Islamic bank in Malaysia. The first part of this chapter briefly explains the regulatory influence that has shaped the development and implementation of Shariah governance practices in EMERALD. The chapter then explores the evolution of these practices over time, highlighting the key institutional transformations. The following part is on the newly established Shariah Division and their role as a Secretariat to the Shariah Committee. Next is the main part of this chapter, which focuses on the three functions under the Shariah control functions. Each was thoroughly analysed through specific themes derived from the interview findings related to Shariah governance practices in EMERALD. These findings clarify how EMERALD embeds regulatory requirements into its institutional procedures and practices. The rationales underpinning the institutionalisation of Shariah governance practices and the forces that institutionalised certain procedures and practices were also justified based on the interview findings on the behavioural concerns towards the institutionalisation of Shariah governance practice. As part of corporate governance arrangement, Shariah governance is integral to EMERALD. Following the paucity of research on this subject matter, this study aimed to contribute to an understanding of the institutionalisation of Shariah governance practices. In this context, institutionalisation was explored through its transition from past to present procedures and practices in EMERALD.

5.1.1 Key Framework and Policy Influence on Shariah Governance Practices in EMERALD

The institutionalisation of Shariah governance practices occurred through the gradual practising of the procedures. In this case study, changes from the evolution of the Shariah governance framework and policy issued by Bank Negara Malaysia, SGF 2010, and later replaced by SGPD 2019, have substantially influenced and institutionalised the Shariah governance practices in EMERALD. The frameworks and policies underpinning Shariah governance within the Malaysian Islamic finance industry have been scrutinised to gain a clear understanding of the regulatory frameworks and their practical application within EMERALD. The aim is to provide a foundational understanding of the regulatory frameworks and policies that shape the institutionalisation of Shariah governance practices in EMERALD. Among the Shariah governance frameworks and policies that have significantly changed Shariah governance practices at EMERALD are the institutional structure, management position, documentation, and reporting line.

Table 5.1 compares the institutional structure framework of Shariah governance between SGF 2010 and SGPD 2019. In SGF 2010, the Shariah control functions were established with four key components: Shariah review function, Shariah risk management function, Shariah audit function, and Shariah research function. However, in SGPD 2019, the structure was revised to include only three Shariah control functions: Shariah review function (now named Shariah compliance function), Shariah risk management function, and Shariah audit function. The Shariah research function was removed from the Shariah compliance function and consolidated under the Shariah division. These changes reflect a restructuring aimed at streamlining functions and improving Shariah governance efficiency.

Table 5.1 Institutional Structure Framework

SGF 2010	SGPD 2019
Establishment of four Shariah Control Functions: • Shariah Review Function • Shariah Risk Management Function • Shariah Audit Functions • Shariah Research Function	Establishment of three Shariah Control Functions: • Shariah Review Function (Shariah Compliance Function) • Shariah Risk Management Function • Shariah Audit Function Removal of Shariah Research Function from Shariah Compliance Function and consolidated under the Shariah Division

Table 5.2 compares the management position between SGF 2010 and SGPD 2019 of Shariah governance. Under SGF 2010, the Shariah Research Function was responsible for Secretariat duties to the Shariah Committee, the appointment of Shariah Officers, and managing research and development. Following SGPD 2019, the Shariah Review Function was removed from the Shariah Control Function and consolidated under the Shariah Division, which provides operational support for the effective functioning of the Shariah Committee. The Shariah Committee reported directly to the Board of Directors under SGF 2010, whereas in SGPD 2019, the Shariah Committee was given the same responsibility and level of autonomy as the Board of Directors.

The Chief Executive Officer in both framework and policy documents leads the senior management in overseeing Shariah matters and reports to the Board of Directors and Shariah Committee. As stated under SGF 2010, the Shariah Compliance Function carried out internal control functions, including Shariah Review, Shariah Audit, Shariah Risk Management, and Shariah Research Functions. However, under SGPD 2019, the Shariah Compliance Function was restructured into an independent Shariah Division. These changes indicate a shift towards more structured and autonomous Shariah governance practices.

Table 5.2 Management Position Framework

SGF 2010	SGPD 2019
Shariah's research function is responsible for: 1. Secretariat duties to the Shariah Committee. 2. Appointment of the Shariah Officer. 3. Managing research and development.	The Shariah research function was removed from the Shariah Control Function and consolidated under the Shariah Division as the Secretariat to the Shariah Committee, accountable for offering operational support to ensure effective functioning of the Shariah Committee.
Shariah Committee reports directly to the Board of Directors	Shariah Committee has the same responsibility and level of position as the Board of Directors
The Chief Executive Officer leads the senior management to oversee Shariah matters and reports to the Board of Directors and Shariah Committee.	The Chief Executive Officer leads the senior management to oversee Shariah matters and report to the Board of Directors and Shariah Committee.
Shariah Compliance Function under Shariah Division carries out the internal control function, which includes: 1. Shariah Review Function 2. Shariah Audit Function 3. Shariah Risk Management Function 4. Shariah Research Function	The Shariah Compliance Function is now an independent Shariah Division.

Table 5.3 indicates the necessary documents as stated under SGF 2010 and SGPD 2019 for Shariah governance practices. According to the SGF 2010, the Charter for the Board of Directors outlined the roles, responsibilities, and authorities of both the Board of Directors and senior management in establishing the institution's direction, overseeing management, and exercising control. Additionally, the GPS 1 2004 guidelines were referred to on Shariah Committee roles and responsibilities. Following SGPD 2019, the Board of Directors' Charter was updated to outline the roles, delegated authority, and operating procedures, while a new Shariah Committee's Charter was created specifically to define its roles, responsibilities, and decision-making authority (Ab Ghani et al.,2024). Both charters aimed to ensure a clear distinction between the Board of Directors and the Shariah Committee, emphasising the committee's independence in Shariah matters.

Table 5.3 Documented Framework

SGF 2010	SGPD 2019
<u>Charter</u> 1. Set out the roles, responsibilities and authorities of the Board of Directors and management in establishing the direction, management, and control of the institution. GPS 1 2004 2. Guidelines on the governance of the Shariah Committee.	<u>Charter</u> 1. The Board of Directors' Charter sets out the responsibilities, scope of delegated authority and operating procedures. 2. The Shariah Committee's Charter sets out the mandate, responsibilities and procedures of the Shariah Committee, including issues reserved for its decision or advice. 3. Both charters set a clear distinction between the Board of Directors and the Shariah Committee roles in ensuring its independence and authority in Shariah matters.
Other documents from each control function: 1. Shariah Reviews Function. - Review program/plan. 2. Shariah Audit Function. - Comprehensive internal audit programme/plan. - Guidelines for the internal audit function 3. Shariah Risk Management Function. - Shariah Noncompliance Risk Management policies and guidelines. 4. Shariah Research Functions. - No specific guidelines, programme/plan.	Other documents from each control function: 1. Shariah Review Function. - Comprehensive policy document. 2. Shariah Audit Function - Comprehensive internal audit programme/plan. - Guidelines for the internal audit function. 3. Shariah Risk Management Function. - Shariah Noncompliance Risk Management policies and guidelines.

As stated under SGF 2010, each Shariah control function has separate documents, including the Shariah review program/plan, Shariah audit comprehensive internal audit program or plan and guidelines, and Shariah risk management non-compliance policies and guidelines, yet no specific guidelines or strategies were in place for Shariah research functions. However, in SGPD 2019, the Shariah compliance function had a comprehensive

policy document, while both the Shariah audit function and the Shariah risk management function retained their respective guidelines and policies. The removal of the Shariah research function from the list indicates structural changes in documentation requirements. These updates reflect a more structured and defined Shariah governance framework, policies, and guidelines for Shariah compliance.

Table 5.4 shows there is a change in the Reporting Line between SGF 2010 and SGPD 2019 in Shariah governance. Under SGF 2010, there were four control functions, each reporting to different committees and management levels. The Shariah Review Function reported to both the Shariah Committee and Management, while the Shariah Audit Function was accountable to the Board Audit Committee and Shariah Committee. The Shariah Risk Management Function reported to the Board Risk Management Committee and Shariah Committee, and the Shariah Research Function reported to both the Shariah Committee and Management.

In SGPD 2019, the Shariah Division became an independent division, taking on the role of Secretariat to the Shariah Committee and assisting the General Manager with administrative tasks. The reporting structure was streamlined into three control functions. The Shariah Risk Management Function now reports to the Shariah Committee, Senior Management, and Board Risk Management. The Shariah Audit Function continues reporting to both the Shariah Committee and the Board Audit Committee. The Shariah Compliance Function reports to the Shariah Committee, Board Compliance Committee, and Senior Management. These changes indicate a regulatory evolution towards a more structured and autonomous reporting hierarchy, enhancing accountability and efficiency in Shariah governance.

Table 5.4 Reporting Line Framework

SGF 2010	SGPD 2019
The 4 control function reports to: 1. Shariah Review reports to both Shariah Committee and Management. 2. Shariah Audit Function reports to the Board Audit Committee and Shariah Committee. 3. Shariah Risk Management Function reports to both the Board Risk Management Committee and Shariah Committee. 4. Shariah Research Function reports to Shariah Committee and Management.	Shariah Division is now: 1. An independent division. 2. Acting as Secretariat to the Shariah Committee. 3. Helping the General manager with admin work. The 3 control function reports to: 1. Shariah Risk Management Function reports to Shariah Committee Senior Management and Board Risk Management. 2. Shariah Audit Function reports to Shariah Committee and Board Audit Committee. 3. Shariah Compliance Function reports to Shariah Committee, Board Compliance Committee and Senior Management.

5.2 EVOLUTION OF SHARIAH GOVERNANCE PRACTICES

The evolution of Shariah governance by the BNM from SGF 2010 and later strengthened by SGPD 2019 introduced clearer requirements for Islamic financial institutions. In response, EMERALD gradually put these changes into practice by restructuring its internal structure and roles, improving documentation, and make clear on reporting line to meet the new regulatory expectations. Based on the study interview, EMERALD's General Manager depicted the evolution of Shariah governance practices in this institution from the preliminary stage. According to him,

“Shariah governance did not start in 2004 or 2010. The Islamic Bank Act 1983 established it from the outset. It already included the general

requirement for having a Shariah Committee and the responsibility of the Board itself to ensure that the bank complies with the Shariah principles.”

He further added,

“However, from the beginning, there was a lack of clarity. Regulators do not provide or produce any specific policy documents, which makes it difficult to streamline the understanding of Shariah governance. Managing an Islamic bank's reputation also requires a distinct approach from conventional banks, including a different approach to credit intimidation. We must look at both aspects in terms of governance.” #

Notably, EMERALD encountered various complexities along the evolutionary process, which implicitly strengthened Shariah governance practices.

EMERALD initially used a self-regulated system that suited its conditions. The General Manager claimed that,

“At that time, the Islamic Banking Act 1983 had already served as the guiding principle for governing the institution. By using the general guidance of the act, it became a self-regulated entity in terms of Shariah.”

Thus, the Shariah principles issued by the regulator to navigate Shariah governance practices proved highly general in affecting the life aspects of both Muslims and non-Muslims alongside institutional reputation.

However, it is crucial to take into consideration the public perception and trust, requirements from the Shariah Committee, renowned scholars’ advice, and the institution’s internal policy itself in ensuring Shariah compliance. This was affirmed by the General Manager,

“When we opened the bank on the first day, the crowd demonstrated the public trust and hope that this new bank would fulfil our religious requirements as Muslims. They came and asked us about Shariah

compliance, and literally, we have the Shariah supervisory council, comprised of renowned scholars, the regional mufti, Professor Tan Sri Ahmad Ibrahim, and Datuk Mat Che Wo Mufti of Kelantan during that time.”

The intense pressure from the public, the Shariah Committee, renowned scholars, institutional members in EMERALD itself, and regulators led EMERALD to ensure adherence to Shariah principles in its transactions, products, and activities as well as programmes. The Islamic banking development in Malaysia was sparked by the dedication of the Malaysian government and BNM through the introduction of the Islamic Banking Act 1983. The objective was to accelerate the growth of Islamic banking and finance in Malaysia during that time. However, the general guidance from the Act itself, through the requirement of the formation of a Shariah Supervisory Council, provides limited information on how to manage the Islamic institution. The General Manager mentioned,

“Even though the Shariah governance system at the preliminary stage of EMERALD is not as strict and robust as the latest SGPD 2019, the development of a Shariah governance system is required to serve not only on transactions and products, activities and programmes but every aspect in the institutions.”

During that period, the regulator had not issued specific guidelines on Shariah governance practices. Nowadays, IFIs have been introduced to IFSA 2013 to tighten Shariah law, policies, and guidelines and to make them mandatory. As a law unto itself, IFSA 2013 is comparable to IBA 1983 in terms of development (see Figure 5.1).

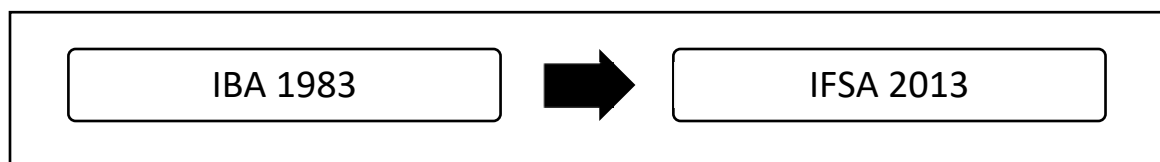


Figure 5.1 Evolution of Islamic Banking Law

The General Manager's appointment as a Shariah officer during the early formation of EMERALD was to ensure the institution's reputation and to differentiate between Islamic and conventional services. According to the General Manager,

“There was no compliance policy to refer to on certain issues in EMERALD, such as staff misconduct, fraud or error in business dealings or transactions. The exact Shariah compliance culture was not set yet.”

Concerning this issue, the General Manager claimed,

“We created the Shariah compliance policy from scratch, but we looked to other industries best practices for guidance. For example, we borrow ideas from the Basel Committee's standards on operational risk. We also refer to AAOFI and IFSB. We adapt from these standards to meet our specific requirements for Shariah compliance culture.”

While the international document served as a foundational reference, it was necessary to adapt and localise its principles to align with the specific requirements of Shariah compliance within EMERALD.

The resulting framework, although not an industry-standard best practice, provides a robust guideline for ensuring adherence to Islamic principles. According to the General Manager,

“Public perception of Shariah compliance and the actual practices in EMERALD are the two Shariah governance aspects that must be considered to ensure institutional reputation.”

These two aspects of Shariah governance must be taken into consideration to ensure EMERALD's reputation, which is the public's perception towards Shariah compliance and the actuality of Shariah compliance practices by EMERALD. Concerning the public's perception, expectation, and hope towards Shariah compliance, support in terms of advice from a prominent Shariah scholar has strengthened Shariah compliance in the eyes of the

public. This is considered a good start where there is pressure from the regulator and the public that prompts the bank to look into Shariah governance practices more thoroughly, even though it is still at the early stage in the Islamic finance industry during that time.

However, EMERALD still required the actuality of Shariah governance practices and systems, especially concerning self-regulated Shariah compliance, improvement, guidance from a regulator, and development. As mentioned by the General Manager,

“This formal change of Shariah governance practices is widely accepted by all staff since the early formation of EMERALD, and it is still ongoing.”

It seems that change informally began at the early stage of Shariah governance practices in EMERALD. During this time, the self-regulation of Shariah compliance mainly concentrated on fostering a culture of Shariah compliance within EMERALD with its system. Though, after the issuance of SGF 2010, EMERALD has set the standards that must be complied with together with Shariah governance practices in EMERALD.

Regardless, this study examines the pre- and post-SGF 2010 and post-SGPD 2019 or the evolution of Shariah governance (see Figure 5.2).



Figure 5.2 Evolution of Shariah Governance Regulation

Following the regulatory evolution as in Figure 5.2, BNM's issuance of the Exposure Draft (2017) marked a key step in engaging IFIs, including EMERALD, prior to the formal implementation of SGPD 2019. In 2017, BNM issued an Exposure Draft to disseminate informal information on the issuance of SGPD 2019, obtain feedback from IFIs (including EMERALD) on the planned changes, and indirectly provide them with time to modify and accept the changes.

The Exposure Draft (2017) outlines BNM's proposals for enhancements to the existing regulatory requirements and expectations regarding Shariah governance for IFIs in Malaysia. The aim was to strengthen the effectiveness of Shariah governance implementation within IFIs (BNM Exposure Draft, 2017). The initiatives by BNM were taken in response to the growing scale and complexity of IFIs (Karbhari et al., 2020) and recent policy developments in governance, compliance, and risk management. Table 5.5 presents the feedback on the Exposure Draft (2017) before the issuance and implementation of SGPD 2019.

Table 5.5 Feedback on the Exposure Draft (2017)

	Key elements	Feedback
1.	Shariah governance structure and disclosure template	To maintain the illustration of the Shariah governance structure and disclosure template for the Shariah Committee in the annual report, as provided in SGF 2010.
2.	Appointment of Islamic finance practitioner	The mandatory appointment of an Islamic finance practitioner. As the Shariah Committee has access to advice from third-party experts, the mandatory appointment of an Islamic finance practitioner in the Shariah Committee can serve as guidance.
3.	Tenure limit for appointment of Shariah Committee member	A maximum tenure (nine years) is to be imposed on the appointment of Shariah Committee members. This limitation aims to address concerns about long-serving Shariah Committee members, who may induce complacency and affect the Shariah Committee's professional objectivity.
4.	Single Shariah Committee within a financial group	Clarification on the expectations for establishing a single Shariah committee within a financial group, specifically in terms of the reporting arrangement and interaction between the board and the Shariah Committee.
5.	Officers performing control functions.	Further understanding of the rationale of having different expectations on the level of expertise for officers who perform Shariah control functions (Shariah risk management, Shariah review, and Shariah audit functions).
6.	Shariah research function	Further clarification on the status of the Shariah research function, as required in the SGF 2010. This function was not mentioned in the ED. The Shariah research function has been removed from the framework structure and replaced with the Secretariat to the Shariah Committee.

Source: Bank Negara Malaysia (2018)

An Exposure Draft (2017) released by BNM was a purposeful transitional mechanism between SGF 2010 and SGPD 2019. It bridges the regulation evolution and transforms the institutional procedures and practices, reflecting a shift towards more formalised, standardised, and structurally independent governance mechanisms. As clarified by the Head of Shariah Compliance,

“Two to three years back, before the issuance of SGPD 2019, BNM came out with their survey to get feedback on the new regulation to replace SGF 2010.”

According to the Chief Shariah Division,

“When BNM released the Exposure Draft, it was confirmed there would be a new framework to replace SGF 2010. It is a sort of consultative approach by BNM to get the consequences on procedures and practices of the new policy document. In fact, we were advised by BNM to begin with the pre-implementation to ensure effective implication.”

Notably, BNM aimed to enhance the proposed SGPD 2019 by seeking input on significant modifications to Shariah governance practices from IFIs, including EMERALD. The Exposure Draft reflected a phased and inclusive approach to regulatory change and policy development. The feedback from the survey (Yusof & Ali, 2021) was gathered as an Exposure Draft (2017) and discussed between BNM and IFIs, ensuring effective and smooth transformation of procedures and practices and minimal disruption.

The feedback (Exposure Draft, 2017) highlighted several main points, including the need for refinements to the Shariah governance structure and disclosure template, the requirement to appoint Islamic finance professionals to the Shariah Committee, and the imposition of a nine-year term limit for Shariah Committee members to mitigate complacency. In addition, the draft clarified the requisite qualifications for officers performing Shariah control functions, outlined expectations for establishing a single Shariah Committee within a financial group, and justified the removal of the Shariah

research function from the final SGPD. Consequently, the newly established Shariah Division assumed the responsibility of serving as the Secretariat to the Shariah Committee.

In aligning proposed regulatory changes with operational realities, the Exposure Draft played a key role in preparing IFIs to adopt new governance practices. As mentioned by the Head of Shariah Compliance,

“During the draft consultation, we raised concern about the removal of Shariah research because it has been central in our governance practice.”

The survey and consultation by BNM allowed EMERALD and other IFIs to adjust internal processes in advance, contributing to efficient implementation and improved readiness for SGPD 2019 compliance. The following section discusses the roles and responsibilities of the independent Shariah Division.

5.3 SHARIAH DIVISION

The Shariah Division functions independently for the first time following the BNM-issued SGPD 2019. Chief Shariah Division highlighted several issues involving the reporting line (see Figure 5.3), structure, institutional members, culture, roles and functions, challenges, policy, rules and regulations, documentation, transparency and disclosure, and routine work process, which must be addressed.

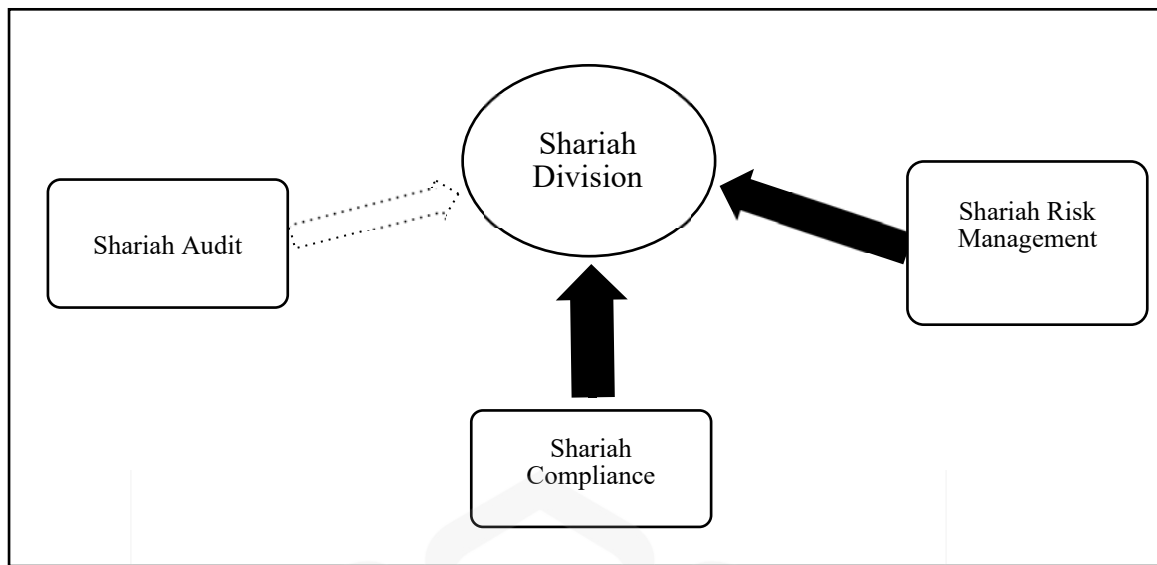


Figure 5.3 Reporting Line of Shariah Division

Thus, the Shariah Division has become the source of indirect approval for any Shariah-related matters post-SGPD 2019. As affirmed by the Chief Shariah Division,

“Shariah risk management and the Shariah Committee will need to go through the Shariah Division to get this approval on each policy guideline within the bank, whether it is a new policy guideline manual for new validation of products or an enhancement on the old policy, guidelines, manuals or any related documents of old products or services, even though they are now independently functioning. The same goes for the Shariah audit; even though they are independent control functions, they will come to us for an opinion on Shariah matters.”

The Chief Shariah Division further added,

“Other than every two years we have to review each Manual in this bank; we also do reviews on the possible issue that could turn out to be potential Shariah findings.”

The review report and documents recommended for approval would be further discussed during Shariah Committee meetings or circulated via the Circular Resolution if it is time-consuming to wait for a meeting and the need is urgent based on the Shariah Division operational manual. Under the Shariah approval authoritative limit policy, the Shariah Committee limits Shariah Division functions from approving any document. The key Shariah Division roles reflect the functions of a dedicated Secretariat to the Shariah Committee.

The Shariah Division's functions and roles were initially managed by the three control functions of Shariah review, Shariah risk management, and Shariah research, with direct reporting to the Chief Shariah Division. In contrast, the Shariah audit directly reported to the Chief Internal Auditor (CIA) while concurrently consulting the Chief Shariah Division on Shariah-related issues. Nonetheless, BNM's issuance of SGPD 2019 resulted in the omission of Shariah research under SGF 2010 and was replaced by the Secretariat to the Shariah Committee. As the Chief Shariah Division claimed,

“SGPD 2019 is more advanced, strengthened and enhanced the SGF 2010 requirement for IFIs with a Secretariat for Shariah-related matters.”

The evolution of the Shariah governance framework, as evidenced by the transition from 2010 SGF to 2019 SGPD, emphasises the importance of robust Shariah oversight. This aligns with the improvement of Shariah governance practices, including a more independent control function with clear reporting lines. The criteria for appointment and the duties and functions of the Shariah Committee have been strengthened and clearly defined in the Charter. Furthermore, a dedicated Shariah Secretariat was established to support the Committee in all Shariah-related matters. This was emphasised by the Chief Shariah Division, who stated that SGPD 2019 is a significant improvement over the previous guidelines.

Initiated from GPS 1, any Shariah officer may become a Secretariat to the Shariah Committee in EMERALD. With the issuance of SGF 2010 and SGPD 2019, there were many changes and developments in the Secretariat function over time. As highlighted by the Chief Shariah Division,

“Previously, it was challenging to find qualified Shariah officers with both Shariah backgrounds and qualifications. So, individuals with Shariah knowledge were often appointed as Shariah officers or as Secretariat who handled all Shariah-related matters. But now it is much easier.”

Following the implementation of SGF 2010, the Shariah research control function undertook the role of the Secretariat. The functions included the appointment and reappointment of Shariah officers and Shariah Committee members, handling claims and allowances; and managing training requirements for Shariah officers. However, the focus of the Secretariat changed with the issuance of SGPD 2019. Now, the Secretariat is primarily tasked with supporting and assisting the Shariah Committee's functions and duties. Subsequently, the issuance of SGF 2010 strengthened the requirements for Shariah governance. Shariah research accounts for the Secretariat function in the Shariah Committee. The issuance of a more advanced and comprehensive SGPD 2019 further improved SGF 2010, albeit with specific changes and enhancements based on what SGF 2010 previously contained.

The Chief Shariah Division further highlighted that IFSA 2013 differed from GPS 1, SGF 2010, and SGPD 2019 and entailed many probations on Shariah compliance, which formalises the Shariah governance framework into a law with specific consequences. The Chief Shariah Division described IFSA 2013 as:

“.... if you fail to comply, you will be penalised.” This compliance rendered the Shariah governance framework more comprehensive.

BNM had already prepared the Exposure Draft 2017 prior to the issuance of SGPD 2019. The Chief Shariah Division stated,

“The exposure draft (ED) was issued earlier before the issuance of SGPD 2019. So, we knew that BNM would issue a new framework to replace SGF 2010.”

It was issued to obtain feedback from IFIs, and the series of Exposure Drafts listed new policies and enhancements on specific matters. This series was also discussed in a meeting with the Association of Shariah Advisors in Islamic Finance (ASAS) to clarify Exposure Draft-related matters. Such feedback is deemed a consultative BNM approach towards the industry and ASAS on major Shariah-related matters, which is essential in gauging IFIs’ (including EMERALD) acceptance or resistance, how to address the changes, and subsequent implications.

The mandate to comply with SGPD 2019 effective from 2020 proves pivotal for IFIs, including EMERALD, to make arrangements for the bank’s manpower, policy, rules, and documentation before the stipulated time frame. Typically, discussions with the BOD would result in a gap analysis to identify any requirements on Shariah governance matters that EMERALD failed to comply with. Both the Shariah Committee and the management would be periodically updated on this gap analysis until they attained zero percentage or 100% compliance within the grace period. As highlighted by the Chief Shariah Division,

“To comply and close the gap, an enhancement of manual, process, rules and documentation in the bank will be done, including the reporting line. Sometimes, we will need to come out with a new manual or policy, for example, the Charter for the Shariah Committee. Earlier, there was no requirement to have a Charter for the Shariah Committee in GPS 1 or SGF 2010, but when BNM issued SGPD 2019, they made it compulsory for us to have a Charter for the Shariah Committee.”

This Charter of the Shariah Committee is mandatory under SGPD 2019. The Chief Shariah Division further highlighted,

“So, if the Board of Directors has its own Charter, the Shariah Committee should also have one”.

It is deemed vital to supervise the implementation of Shariah rulings or oversight roles. The BOD, with insufficient Shariah knowledge and qualifications, would not be able to execute this oversight role on Shariah rulings. Alternatively, a qualified Shariah Committee with expertise in Shariah-related matters should be tasked with this responsibility. This development necessitates a Charter for the Shariah Committee to accurately outline the BOD’s delegation of roles, duties, functions, and responsibilities to this committee. The Charter for BOD must also be amended to delegate some of the Shariah roles, functions, duties, and responsibilities to the Shariah Committee.

In describing EMERALD’s acceptance of GPS 1, SGF 2010, IFSA 2013, and SGPD 2019 and their implication on its structure concerning the institutional structure, reporting lines, and key members, the Chief Shariah Division claimed that these structural aspects were altered to coincide with the issuance of SGF 2010 (Appendix I) and SGPD 2019 (Appendix II). Restructuring the four control functions and their Shariah officers provided a clear depiction of the reporting line. The Shariah officer under each control function would be able to prioritise specific tasks. Information could be directly delivered and easily comprehensible to accomplish a specific task. Most importantly, this approach could reduce conflicts of interest.

Regarding SGF 2010, Shariah review, Shariah risk management, and Shariah research are control functions under the Chief Shariah Division. Nevertheless, the issuance of SGPD 2019 led EMERALD to reorganise its structure, Shariah officers, and reporting line. Furthermore, SGPD 2019 includes a stringent requirement for the Shariah Division.

Before the issuance of SGPD 2019, the Chief Shariah Division was required to manage all four control functions of Shariah review, Shariah risk management, Shariah audit, and Shariah research while also serving as a Secretariat to the Shariah Committee. This arrangement could instigate conflicts of interest and a lack of focus on specific issues under each control function. Consequently, EMERALD reconstructed its institutional structure to enable each control function to prioritise its respective areas. Thus, the reporting line would be more transparent without double reporting. Information could also be easily distributed to specific Shariah officers in the institution, especially under the three control functions. A new division was also created by restructuring the institutional structure to take over the Shariah research function. The transparent reporting line enabled the Chief Shariah Division to focus on his primary function as a Secretariat to the Shariah Committee and secondary function as an administrator (under the General Manager).

Although the change in institutional structure and Shariah officers resulted in a clearer reporting line, the officers' roles and responsibilities under each control function remained unaltered. Only the Shariah officers' position in the institutional structure and reporting line was changed. Under SGPD 2019, a Chief Risk Management Officer was appointed to take charge of Shariah risk management. A new and independent Shariah Division was developed, albeit with the same key actor under SGF 2010 (Chief Shariah Division). As such, the Chief Shariah Division could easily define the new roles following his experience with the inherent duties and functions. He stated,

“I'm grateful that I can focus more on Secretariat matters which need a lot of changes as required by SGPD 2019.”

This positive change denotes a harmonisation in independent control functions, which may create better confidence in managing their functions. A filter could also be created to enhance the function and roles. Shariah review, Shariah risk management, and Shariah audit officers would need approval from the Shariah Committee to execute and provide assurance on their duties.

EMERALD had to transcend its internal Shariah compliance policy and rules to implement the BNM-issued GPS 1, SGF 2010, IFSA 2013, and SGPD 2019. Although the internal regulations would reflect the GPS 1, SGF 2010, IFSA 2013, and SGPD 2019 stipulations for IFIs, EMERALD's development of the policy and rules would depend on internal situations. The institution has been resourceful in developing its internal policy and rules from GPS 1 2004 to date (SGPD 2019). As supported by the General Manager,

“.... EMERALD has already done the things that BNM expects before the issuance of SGF 2010.” As mentioned by the Chief Shariah Division, “Yes... EMERALD existed even earlier than BNM, and we have practised Shariah earlier than them, so when they come for an audit, it is not an audit but rather a supervision on compliance.”

The institution's Shariah control function adapted to additional rules and policies while concurrently adhering to BNM-issued requirements.

Despite applying Shariah governance practices that varied from other IFIs, BNM did not object to EMERALD's practices. For instance, despite practicing Shariah compliance, EMERALD has few non-Muslim institutional members. BNM has no specific requirements for the appointment of non-Muslims in IFIs. Concerned with the public perception and the Islamic institution image, EMERALD developed its own internal rules and policies for non-Muslim employees. According to the Chief Shariah Division,

“We do have a non-Muslim chief risk officer. So far, there is no problem; the principle of Shariah is maintained. She is already in our institution. We have the power to impose that requirement.”

This situation is palpable from non-Muslim employees' adoption of internal rules and policies. Nevertheless, the management was not concerned about this circumstance as long as employees upheld professional views and character in complying with Shariah principles at work. EMERALD has creatively developed the aforementioned policies and rules to

fulfil its responsibility (*jihad*). Furthermore, the institution members must demonstrate integrity and willingness to challenge conventional practices.

Moreover, no policies or rules on dress code were issued by BNM to reflect Shariah compliance practices and the ‘Islamic’ name used by EMERALD. The Chief Shariah Division said,

“... for example, in terms of dress code, although we do not require our female institution members to wear hijab in any way, they must look decent to suit the Islamic institution’s environment.”

Nevertheless, the Human Resources Department developed EMERALD’s dress code policy with advice from the Shariah Division. Despite not being a mandatory requirement under GPS 1, SGF 2010, IFSA 2013, or SGPD 2019, all EMERALD members are constantly reminded to comply with this internal dress code policy. This is in response to the public criticism about EMERALD employees wearing dresses, whereby the dress code policy serves as part of the measures to protect the institution’s image and reputation. In this case, the Chief Shariah Division was the main institutional member who was responsible for ensuring all activities, operations, and products were in compliance with Shariah principles.

The Shariah Division became the Secretariat to the Shariah Committee following the issuance of SGPD 2019, which focused on increasing the quality of Shariah Committee decisions or advice. This division and its team are responsible for the Secretariat function. Many new Shariah Committee-related requirements had to be fulfilled under SGPD 2019. All IFIs, including EMERALD, were given a grace period up to April 2023. Notably, BNM provided EMERALD and other banks with four years to comply with the limitation of service. Many IFIs resembling EMERALD had already begun implementing new Shariah

Committee requirements under the stipulations of SGPD 2019 following the issuance of ED 2017. As stated by the Chief Shariah Division,

“Currently, there are not many Shariah Committee in the industry. If we delay our action, we have to compete with other banks in getting experienced Shariah Committee”.

As the Secretariat, the Chief Shariah Division must ensure the appointment of the new Shariah Committee in relation to composition, competency, independence, and limitation of services. The composition of the Shariah Committee in EMERALD consisted of only three members, as stipulated by GPS 1 in 2004. Nevertheless, the requirement increased to five Shariah Committees with BNM’s issuance of SGF 2010. The composition remained the same under SGPD 2019, albeit with limitations on their services of up to nine years. The Shariah Committee service must not exceed a period of nine years in the same IFI. They are required not to be appointed again in the same institution after completing the nine years of service. This condition is similar to the BOD Corporate governance requirement. As highlighted by the Chief Shariah Division,

“SGPD 2019 put the Shariah Committee at the same level as BOD. This is new to us. Some of the requirements for the Shariah Committee, such as no reappointment after nine years of service at the same institution, follow the requirement of BOD in corporate governance.”

Previously, no compulsory limitations existed on the Shariah Committee years of service for the Shariah Committee by GPS 1 2004, SGF 2010, or SGPD 2019.

This mandate proved challenging for EMERALD and the Secretariat, as the existing Shariah Committee has been with the institution for many years. As shared by the Chief Shariah Division,

“... that’s the challenge in this industry or perhaps the true story of the industry.”

Both EMERALD and the Shariah Committee had become complacent with their responsibilities and functions. As the new Shariah Committee's strengths were yet to be identified, finding and appointing a new counterpart proved challenging. A Secretariat is intensely pressured when required to appoint a competent Shariah Committee who can advise the industry. As mentioned by the Chief Shariah Division,

“.... we appointed him as an advisor to advise us in Shariah-related matters, but in the end, we were the ones who advised him back.”

The newcomers must undergo training for the first two years upon being appointed to the Shariah Committee.

Decision-making is another complexity for the Secretariat. The provision of training for the Shariah Committee is also a stipulation under SGPD 2019 to ensure their competency in making decisions for EMERALD and other IFIs. Furthermore, the Shariah Committee must independently accomplish its functions and roles under the issuance of SGPD 2019. The Chief Shariah Division elaborated,

“The Shariah Committee has a nature that he must be independent. Just like the BOD, they must be independent in their action. But if he serves more than nine years, he cannot be an independent anymore.”

This requirement counters the corporate governance's requirement of independent BOD; they will become non-independent if they are reappointed in the same institution after nine years of service. A Shariah Committee that has served for over nine years and been reappointed for the same IFI would no longer become autonomous and comply with the SGPD 2019 requirement on independence.

A Charter, which was required for the Shariah Committee in line with SGPD 2019, was another challenging task for the Secretariat to prepare. According to the Chief Shariah Division,

“Developing a Charter for the Shariah Committee is a complex task. We need to define both roles; we must carefully examine the distinctions between the functions and duties of the Board of Directors (BOD) and the Shariah Committee. This involves scrutinising the BOD Charter and identifying any gap or delegation of duties with the Shariah Committee.”

He further elaborated that,

“Through open discussion between the BOD and the Shariah Committee, clear delegation of responsibilities and functions was established. This process involved some modifications to the BOD Charter and the development of the Shariah Committee Charter.”

Then he added,

“Both the Shariah Committee and BOD were at the same level.”

Following the GPS 1 2004 and SGF 2010 Shariah Committee reports to the BOD on any Shariah issues. The issuance of SGPD 2019 has strengthened the Shariah Committee function by having the same independent position with BOD. To put it differently, the Shariah Committee has an oversight role to supervise the implementation of Shariah rulings in EMERALD. Regardless, some of the BOD responsibilities, functions, and duties have been delegated to the Shariah Committee in compliance with the SGPD 2019 requirement. As the Shariah Committee is equipped with more knowledge and competence to manage Shariah-related matters than the BOD, a new Charter for the Shariah Committee was created. The existing Charter for BOD has been amended to mandate a delegation of responsibility, function, and duties in the Shariah Committee’s Charter. Overall, the function of the Shariah Committee as a main control mechanism in Islamic banks is further

furnished with the Secretariat and the Charter for the Shariah Committee in ensuring Shariah compliance and providing sound advice regarding Shariah issues.

A Shariah non-compliance (SNC) event is predominantly managed by the Chief Shariah Division, which is also one of the senior managements that reports to the board, assists the Shariah Committee as a Secretariat and assists the General Manager regarding administrative tasks. As stated in SGPD 2019, among the responsibilities of senior management is reporting any potential or actual Shariah non-compliance events to the board and Shariah Committee on a timely basis. The institutional structure in Appendix II shows the position and reporting line of the Chief Shariah Division. The Shariah non-compliance case starts with a simple example whereby the customer forgets their signature on the forms. This is considered Shariah non-compliance since the signature is equal to *aqad* in Islam. The first step in managing SNC begins with the branch itself. The Branch Manager reports the SNC by entering relevant information into the Operation Risk Control Committee system. The committee comprises the Chief Shariah Division (CSD) and the Head of Shariah Compliance (HSD). Next, the Shariah Committee reads and reviews the report and investigates the root cause with the stakeholders involved in the SNC to devise corrective and preventive actions. Furthermore, if the Shariah Committee finds it reasonable, the report will become a Shariah finding on a possible Shariah non-compliance (PSNC) event. Simultaneously, CSD presents the possible Shariah issue to the BOD to ensure their awareness of the SNC. Then, HSD tables the PSNC event to the Shariah Committee for them to determine whether it is an actual SNC event or not. Such a process involves the Shariah Committee conducting assessments, investigating with stakeholders involved, and studying the root cause of SNC. Next, the SNC is tabled to the BOD for approval to be reported to BNM. Finally, the actual PSNC event is reported through ORION to obtain approval on the corrective and preventive actions. The following section further discussed findings from the central operational level in EMERALD.

5.4 SHARIAH CONTROL FUNCTIONS

Shariah control functions have been developed for almost a decade since the issuance of SGF 2010. Subsequently, the Shariah audit function, Shariah review function, and Shariah risk management function were retained under SGPD 2019. Shariah research was removed from SGPD 2019 and consolidated under the Shariah Division. The main purpose is to ensure adherence to Shariah compliance in the activities and processes within EMERALD.

According to the Chief Shariah Division, no control function existed during the formation of EMERALD. Eventually, BNM's stipulation for an IFI to have a Secretariat to the Shariah Committee with a Shariah background, qualification, and knowledge under GPS 1 2004 marked the starting point of the general Shariah function. The Chief Shariah Division affirmed that,

“More Shariah officers among the qualified and having Shariah backgrounds and knowledge were appointed in EMERALD after the issuance of GPS 1.”

During this time, EMERALD began recruiting many Shariah officers to acquire and fully utilise their talent in its operations and management.

BNM's issuance of the Shariah Governance Framework in 2010 introduced the requirement to have four control functions in each IFI. As shared by the Chief Shariah Division,

“.... During GPS 1 issuance, there is still no control function yet... so now is what we call an evolution.”

SGF 2010 was introduced in 2011 to optimise the roles of the board, Shariah Committee, and management and ensure Shariah governance practices within its operations and products. Regardless, the Shariah research function was omitted following BNM's issuance of SGPD 2019. The three remaining control functions were retained in EMERALD. Meanwhile, the Shariah research function is now the independent Secretariat function that was transferred to the Shariah Division to serve the Shariah Committee and report to the General Manager on administrative matters in EMERALD. The Shariah review function was renamed as the Shariah compliance function, with added features. Both the Shariah risk management and the Shariah audit remained with the same functions. The three control functions now operate autonomously. As stated by the Chief Shariah Division,

“However, we still work together and discuss with each other on Shariah issues from time to time. Even with the General Manager, we still contact and meet up to get clarification on certain non-compliance Shariah issues.”

This internal change is vital for EMERALD and aligns with SGPD 2019's emphasis on the Shariah Committee.

In relation to this study, Table 5.6 outlines the processes mandated under each Shariah control function to provide a clearer understanding of how SGPD 2019 operationalises Shariah governance. This table offers a structured overview of the specific roles and responsibilities assigned to each control function, reflecting the policy's emphasis on clarity, accountability, and functional integration in the governance framework.

Table 5.6 Processes under each Shariah Control Function by SGPD 2019

Shariah Control Functions	Process
Shariah Audit	● To assess the risk profile and each auditable area exposure by developing a strong audit methodology. ● To develop a comprehensive Shariah audit plan for the Shariah audit process. ● To provide guidance on gathering information, auditing procedures, and audit assessment by developing clearly documented Shariah audit programmes. ● To communicate the audit findings, recommendations for rectification measures, and auditee's responses and action plans to the BOD and the Shariah Committee through an audit report.
Shariah Compliance	● To identify, assess, and monitor Shariah compliance. ● To regularly report on Shariah non-compliance issues and findings to the BOD, Shariah Committee, and senior management. ● To inform and provide the latest updates on regulatory requirements, specifically Shariah Advisory Council rulings, to the BOD, Shariah Committee, and senior management. ● To ensure the officers were provided with adequate training and guidance on relevant Shariah requirements.
Shariah Risk Management	● To integrate Shariah non-compliance risk with conventional risk management. ● To identify potential Shariah non-compliance risk exposures. ● To assess and measure the potential impact of Shariah non-compliance risk exposures. ● To develop appropriate risk mitigation measures. ● To closely monitor both Shariah non-compliance risk exposures and the effectiveness of risk mitigation measures. ● To report to the BOD, Shariah Committee, and senior management on Shariah non-compliance risk exposures. ● To develop constructive decisions that may escalate to Shariah non-compliance risks.

Source: Bank Negara Malaysia, SGPD (2019)

5.4.1 Shariah Compliance Function

Previously known as the Shariah review function, the Shariah compliance function was developed following the issuance of SGPD 2019. The first development of the Shariah review function coincided with SGF 2010. According to the Head of Shariah Compliance,

“When BNM issued SGPD 2019, all functions must be independent. So, in January 2020, we started to restructure so that the Shariah-compliant function reported to the Chief Compliance Officer (CCO).”

The Shariah compliance function became an independent compliance function in adherence to SGPD 2019 requirements. The change in the reporting line and Shariah officers led to accommodating new ways of thinking and performing tasks. Previously, the Shariah review function reported to the Chief Shariah Officer of the Shariah Division following SGF 2010. As mentioned by the Head of Shariah Compliance,

“From 2010 to 2019, the Shariah review function operates under the Shariah Division.”

After the issuance of SGPD 2019, the Head of Shariah Compliance reported to the Chief Compliance Officer of the Shariah Compliance Division.

Some of the Shariah review function members retained the same review process function and roles under the Shariah compliance function despite the change in institutional structure and reporting line. This was highlighted by the Head of Shariah Compliance:

“We had the same manpower, or we called them team members, before and after the restructuring. It is much easier since they have the same roles and functions.”

The Head of the Shariah Review Function, who remained the Head of the Shariah Compliance Function, held the same functions and roles pre-SGPD 2019. All three control functions were managed by the Chief Shariah Officer of the Shariah Division before SGPD 2019. Meanwhile, the Shariah audit fell under internal audit. Notwithstanding, the three functions became autonomous following the issuance of SGPD 2019. The Shariah compliance function reported to the Chief Compliance Officer, Shariah risk management reported to the Chief Risk Management Officer, and Shariah research was replaced with the new Shariah Division, which served as the Secretariat to the Shariah Committee. The Chief Shariah Division or the Secretariat concurred with this statement on restructuring, reporting lines, and institutional members.

After restructuring following the issuance of SGF2010, a Shariah review guideline was prepared for the Shariah review process. According to the Head of Compliance Function,

“A Shariah review guideline was developed post-restructuring.”

This guideline directs the Shariah compliance function on how to operationalise as an independent control function and execute a review process on Shariah issues in EMERALD within a new context. Overall, the guideline enabled EMERALD to internalise the BNM requirements. The Head of Compliance Function explained,

“This Shariah review guideline (SRG) needs to be revised from time to time to fulfil the client’s needs and follow the SGPD requirements.”

The Shariah review guidelines must be periodically revised to accommodate EMERALD clients’ needs and implement Shariah compliance requirements based on SGPD 2019.

Furthermore, periodically revising the Shariah review guidelines and its internal policies will render the review process more structural.

However, the elements of the review process function have prevailed since SGF 2010 but were left unstructured. As highlighted by the Head of Compliance Function,

“There was no structured plan when we did the review. This often leads to plans that are not well-defined or organised.”

Currently, the shift from the Shariah review function to the Shariah compliance function led to improvements in elements of the review process function, which has become a standard approach in the review process. He further mentioned,

“With the compliant risk assessment methodology (CRA) that we developed ourselves, it helps a lot in the review process.”

The Shariah compliance function developed the CRA methodology based on this standard approach. Such methodology rendered the Shariah review process more structured, comprehensible, and manageable, specifically in managing Shariah non-compliance issues.

As the Head of Shariah Compliance, the Head of Compliance Function gained extensive experience since joining EMERALD. He mentioned,

“I joined EMERALD around 10 years ago before the issuance of SGF 2010 as a Shariah risk officer and later as a Shariah review officer. I have been exposed to, learned and even managed Shariah non-compliance issues during this time.”

Even though the Shariah risk management control function has not been developed as BNM has yet to issue SGF 2010, there are Shariah risk officers in charge of managing Shariah risk issues in EMERALD. This finding corresponds with the GPS 1 2004 requirement of managing Shariah non-compliance events. As mentioned by the Head of Compliance Function,

“Last time, the Shariah review function work process was quite similar to the Shariah risk management function. Not much different.”

Thus, it is an advantage to the Shariah compliance function to have the Head of Shariah Compliance, who has exposure and experience in Shariah risk management and Shariah review.

5.4.1.1 Enhancement of Review Elements

This section highlights the regulatory enhancement of Shariah review elements under SGPD 2019. Only four elements were performed by the Shariah review process under SGF 2010. Nonetheless, three additional elements were incorporated into the process (including related Shariah non-compliance events) under SGPD 2019, as summarised in Table 5.7.

Previously, the Chief Shariah Division would update the resolution from BNM’s Shariah Advisory Council and Securities Commission to the BOD, Shariah Committee, and management. This role was delegated to the Shariah compliance function after the issuance of SGPD 2019. Similar to Shariah non-compliance events, the Shariah risk management function would table the events to the BOD, Shariah Committee, and management. The Head of Compliance Function said,

“When there are Shariah non-compliance events, we have to investigate, assist the business unit to come out with the corrective assume plan and preventive assume plan.”

This statement corresponds to the General Manager’s experience as a Shariah compliance officer pre-SGPD 2019. Officers from the three control functions of Shariah risk management, Shariah review, and Shariah research reported Shariah non-compliance events to the General Manager to be approved and tabled to the BOD, Shariah Committee, and management.

Table 5.7 Shariah Review Process Elements

SGF 2010	SGPD 2019
Planning	Planning
Fieldwork	Fieldwork
Reporting	Reporting
Monitoring	Monitoring
	Update resolution
	Table Shariah non-compliance
	Ensuring training

The Shariah compliance function is now in charge of ensuring adequate Shariah-related training for EMERALD members under SGPD 2019. Regarding the Shariah review guideline, the first step in ensuring that each Shariah officer receives adequate and relevant training is to directly ask the EMERALD staff if they had joined any Shariah training during the review process at fieldwork. This procedure allows the identification of EMERALD

staff with insufficient Shariah knowledge or training. Alternatively, a survey questionnaire can be disseminated to EMERALD members to gauge their knowledge of Shariah-related matters. The next step is recommending EMERALD staff with little or no Shariah knowledge or training to attend Shariah training sessions. Matters related to training were previously managed by the officer responsible for the Shariah research function before the issuance of SGPD 2019 and the restructuring of the EMERALD institutional structure, reporting line, Shariah officers, and their functions and roles.

Novel ways of thinking and performing tasks in EMERALD have significantly influenced Shariah officers and the work culture in the Shariah compliance function. Such changes positively and independently affected EMERALD as an institution and created personal development in terms of strategies to perform the Shariah review process. As mentioned by the Head of Compliance Function,

“Our team takes a positive approach, viewing it as an opportunity for personal and team development. We recognise the need to adapt to the new requirements, including conducting investigations and assessing the impact of the SGPD 2019. Our team also identifies and mitigates potential risks, such as skill gaps, by implementing appropriate measures like training or qualification enhancement.”

This personal development enhanced the individual’s capacity for task performance and the development of knowledge, experience, and exposure. More elements were included in the Shariah review process following the changes caused by the shift from the Shariah review function to the Shariah compliance function. Such a transition has increased the awareness of Shariah officers in the Shariah compliance function about the new rules and culture associated with their roles and responsibilities. This was highlighted by the Head of Compliance Function,

“The shift from SGF 2010 to SGPD 2019 has improved our ability to perform Shariah reviews, but at the same time we need more Shariah-qualified manpower to look at the Shariah matters.”

Furthermore, the transition not only provided the existing Shariah officer with clearer processes, rules, roles, and responsibilities but also offered more employment opportunities for Shariah graduates in EMERALD. The Head of Compliance Function claimed that,

“Before SGF 2010, there were only two Shariah officers to cater to all Shariah review processes and matters. After the SGF 2010 and the SGPD 2019, we need to get more Shariah officers to be responsible for complying with Shariah requirements.”

The BNM-issued SGPD 2019 inevitably incurred more costs following the need to employ qualified Shariah officers and autonomise each control function in EMERALD.

Changes in the reporting line also resulted in a negative perception. Institutional members who had become complacent with current reporting standards were compelled to change to a new way of reporting based on the new leader’s requirements. According to the Head of Compliance Function,

“The working environment will no longer be the same.”

Terms of commitment and dedication to certain functions or duties also required change. EMERALD members were required to consider more unique elements, requirements, and standards to execute their Shariah review process and accommodate the new working environment with sufficient time. Overall, the Shariah governance practices in EMERALD were optimised.

5.4.1.2 Facing the Challenges and Integrating the Limitations

The new thought processes and work performance led the Shariah compliance function to encounter some challenges and limitations, which could be resolved with top management support. Observably, EMERALD members had become complacent with the existing and smooth working environment. Nevertheless, the advent of SGPD 2019 caused the formulation of new rules and the enhancement of Shariah governance practices at a fast pace for the Shariah compliance function officers to implement. The Head of Compliance Function mentioned,

“These are the challenges, whether to existing or new Shariah officers.”

He further added,

“We have to close the gap.”

All managerial orders and instructions, including those from the Head of Shariah Compliance Function and Chief Compliance Officer, must be followed to fulfil the SGPD 2019 requirement. The existing Shariah officers in the Shariah compliance function, all of whom were previously from the Shariah review function, could seamlessly perform the functions, which remained the same except for some new elements.

New Shariah officers performed their function efficiently despite the complexities of being at par with the process. As mentioned by the Head of Compliance Function,

"So far, our Shariah officers have been able to keep up with the process due to the existing Shariah review guidelines. Despite the rapid pace of necessary changes, the Shariah officers performed well."

Essentially, the Shariah review guideline served to navigate their work performance. Meanwhile, the Shariah compliance function gained a team leader with experience in managing Shariah non-compliance events. The Head of Compliance Function said,

“During the development of the annual plan, it is necessary to seek final approval and guidance from the CCO. Once we have a clear understanding of the strategic direction, initiatives, and vision, we can proceed with developing the plan. We do not foresee any significant issues in this regard.”

These developments instigated no issues involving changes in functions, autonomy, and the addition of new elements of functions.

The top management provided the Shariah compliance function with support and advice on Shariah-related matters in terms of classifying the reporting line and Shariah officers. This good rapport with the Shariah Division, which has become an independent division in EMERALD post-SGPD 2019, remains unchanged. All control functions (including the Shariah review function) are under the Chief Shariah Division, unlike the structure and situation post-SGF 2010. As the reporting line of the Shariah review function and other control functions are directed to the Chief Shariah Division, they can always refer to this officer for advice or clarification on Shariah-related matters with no limitation. As mentioned by the Head of Compliance Function,

“Previously, we were under the Shariah Division. But after the restructuring following the SGPD 2019, we now report to the Compliance Division. However, we still discussed and verified with the Shariah Division for any Shariah-related problems. It looks like we are reporting to two different bosses.”

Nevertheless, the issuance of SGPD 2019 by BNM rendered the Chief Shariah Division and other control functions as independent entities. Even though they have an indirect reporting line and the Shariah compliance function seems to have two bosses to report to

on certain issues, there exists a limitation in terms of independence of reporting to only the Compliance Division.

To harmonise the situation of “looking like” having two bosses and transparency in the reporting line structure, the top management (including the Chief Shariah Division) collectively integrated the limitations via the Shariah non-compliance working group, which comprised the Chief Shariah Division, Head of Shariah Compliance Function, Head of Shariah Risk Management Function, and Head of Shariah Audit Function. Such a good combination enables the working group to discuss and harmonise the reporting line structure and the review process of Shariah non-compliance issues. As per the Head of Compliance Function,

“Alhamdulillah, it has been one year since the change to the Shariah compliance function, and we can perform the task given to us with the help of this support working group, which helps us to come up with more ideas and suggestions.”

However, several aspects from the discussion output of the Shariah non-compliance working group (e.g., the process guidelines, training manuals, and review processes) must be improvised, updated, and aligned with the Shariah governance practices in the Shariah compliance function and other control functions. The efforts to update and improvise the guidelines, manuals, and processes are parallel to each independent function.

5.4.2 Shariah Risk Management Function

As part of the internal control functions in EMERALD, Shariah risk management is responsible for systematically identifying, evaluating, monitoring, and reporting risk associated with Shariah non-compliance in order to effectively manage such events. The

Head of the Shariah Risk Management Function claimed that Shariah risk management was already in practice within EMERALD since the issuance of GPS 1 2004 (before SGF 2010). He explained,

“This Shariah risk management and Shariah review are mentioned by BNM in the year 2010. During that time, EMERALD has already developed its Shariah control functions. They had this Shariah risk management control function earlier than the issuance of the SGF 2010. So, when BNM came for the Shariah review process post-SGF 2010, they commented on the reporting line that changed the internal structure of EMERALD. Instead of fully reporting to the Chief Shariah Division, they also report to the Chief Risk Officer, and this is called double reporting”.

EMERALD had already structured Shariah risk management under the Shariah Division before the issuance of SGF 2010. Despite not being explicitly outlined in the framework, all the control functions, including the Shariah risk management function, fell under the Shariah Division when BNM issued SGF 2010. It allowed Shariah officers to mitigate the occurrence of Shariah non-compliance.

Although the Head of the Shariah Risk Management Function claimed that “This makes EMERALD different and unique from other IFIs”, all the control functions became independent functions following the SGPD 2019. Consequently, EMERALD resorted to restructuring its institutional structure, which placed Shariah risk management under the Chief Risk Officer. In line with Shariah Risk Management Officer 2,

“...the function is now merged with the Risk Management Division.”

Used as Shariah practice guidelines to perform the Shariah risk management function pre-SGPD 2019, the Shariah risk management guidelines were integrated with those of operational risk management to perform the operational risk function. The guidelines were merged, as 60% of Shariah risk management guidelines resembled those of institutional

risk management. This merger is considered another new measure undertaken following the issuance of SGPD 2019.

According to the Head of Shariah Management Function,

“Shariah non-compliance risk is now a part of Operational Risk, which is the reality, so when we merged, we used the same one tool only, which is the merged guideline to perform our function, either Shariah or operational risk management.”

Shariah Risk Management Officer 1 further added,

“... except in executing the function, we have our own Shariah requirement compulsory with a penalty to be complied with as per IFSA 2013. And most of the requirements or enhancements are detailed out in ORION by BNM.”

ORION is a reporting system that elaborates on the stipulations under SGF 2010, IFSA 2013, and SGPD 2019. All rules, regulations, and policies under ORION could affect Shariah governance practices by EMERALD. The Head of the Shariah Risk Management Function provided an example of the term ‘Qualified Shariah Officer’, which was changed to ‘Officer’ to describe anyone under the internal control function, excluding the Shariah Division officer, in ORION. BNM further specified the terms in ORION to demarcate duties and ensure the independence of the internal control function from Shariah Division officers. This finding is parallel with the SGPD 2019 requirement where each internal control function must be independent.

5.4.2.1 Harmonising the Shariah Compliance Culture

In EMERALD, the Shariah non-compliance working group is created to significantly harmonise the Shariah compliance culture and transparency in the reporting line. The

working group consists of the Chief of Shariah Division, Head of Shariah Compliance Function, Head of Shariah Risk Management Function, and Head of Shariah Audit Function. Regular meetings are held to discuss the Shariah non-compliance review process and the reporting line structure. According to the Head of Shariah Management Function,

“Up to a certain point, actually we agree with the approach by BNM through the issuance of SGPD 2019 regarding the single reporting. Because if there is any conflict of interest related to the Shariah Division, there will be no more independence.”

The Head of Shariah Risk Management Function further explained that sometimes any findings from the Shariah Risk Assessment on the lack of control in the Shariah Division, Shariah Risk Management, or other internal control under the Shariah Division are not reported so that they can rectify it immediately. As mentioned by the Head of Shariah Risk Management Function,

“We know there is an issue of non-compliance, but we do our best to solve it. I think this is good practice.”

Even though such practice had an adverse impact on the Shariah governance practices and their working culture and contributed to a lack of control by the Shariah Division, they did their best practice and solved it at the internal level. Such a matter has both pros and cons. Hence, it is mandatory to follow an independent single reporting line to harmonise both practices and culture as required under SGPD 2019. This aligns with the Head of Shariah Risk Management Function who said,

“... whether you like it or not, you must follow it.”

The internal requirement from EMERALD’s management itself is another factor that could influence the harmonisation of Shariah governance practices. Good corporate governance practices must be seamlessly incorporated into EMERALD. Meanwhile, EMERALD members must maintain optimal governance practices to elevate the

institution's image and sustainability. The Head of Shariah Risk Management Function said,

“Sometimes when there is an issue on Shariah matters, it is quite impossible to maintain the best corporate governance practices in terms of reporting the findings. So, there will be no independence in this case when the gap is closed without any further investigation. So, to harmonise the culture, EMERALD should restructure its Shariah control function and the reporting line.”

In the case where the "gap is closed", it means that a potential Shariah issue has been identified and resolved without further investigation. It implies that the issue is deemed insignificant and can be resolved within the division itself, therefore necessitating no additional actions. However, in the specific case of Shariah non-compliance, closing the gap without further investigation can compromise optimal corporate governance. This is because it may lead to a lack of independence and objectivity in assessing the issue. To maintain optimal corporate governance following SGPD 2019, EMERALD restructured its Shariah control functions and reporting lines. The change guarantees that Shariah concerns are properly investigated and dealt with and that there is a clear and independent process for reporting and resolving such issues.

As the key performance indicators of Shariah risk management team members are determined by the Shariah Division, the members are considered Shariah Division officers. As stated by the Head of Shariah Risk Management Function,

“Although there is another reporting line to Shariah compliance, the fact is that we are the staff of the Shariah Division.”

Before the issuance of SGF 2010, the reporting line was to the Chief Shariah Division. However, the Shariah risk management officers, other control function Shariah officers, and Shariah Division officers were ‘stuck’. As mentioned by the Head of Shariah Risk Management Function,

“Our KPI is determined by the Shariah Division, but at the same time, we need to report to Shariah compliance. Each time BNM questioned the independence of the Shariah control function while reviewing the Shariah process and suggested EMERALD change the single reporting line into a double reporting line.”

In other words, the officers could not transition from a single to double reporting line given the harmonised practice and culture already in place, which allowed the Chief Shariah Division to easily monitor the Shariah internal development progress. As the internal control functions (including Shariah risk management) are overseen by the Chief Shariah Division, they may share their Shariah knowledge, experiences, and technical skills in managing Shariah-related matters, specifically Shariah non-compliance issues. As highlighted by the Head of Shariah Risk Management Function,

“It is unnecessary to report to the Chief Risk Officer of the Risk Management Division, as their functions emphasise operational risk management over Shariah risk management.”

The Shariah control function, which includes Shariah risk management, still requires reporting to the Chief Shariah Division, causing the independence issue raised by BNM during the review process to remain unresolved. Nonetheless, the ‘stuck’ situation was harmonised following BNM’s issuance of SGPD 2019, where all Shariah control functions must be independent of the Shariah Division with a single reporting line.

5.4.2.2 Need for Shariah Competency

Passing and performing Shariah judgements and assessments requires competency in Shariah. The successful performance of Shariah governance practices depends on one’s capability to professionally apply Shariah knowledge, skills, experiences, and abilities. The Shariah officers in EMERALD, specifically in the Shariah Division and Shariah control

functions, must be knowledgeable, qualified, and experienced in addressing Shariah-related issues. The Head of Shariah Risk Management Function mentioned that the General Manager, who is also a pioneer in EMERALD, underscores the importance of competency. He stated that,

“... the person appointed as the Head of Shariah Risk Management or other control function... that person shall be the river of knowledge (knowledgeable).”

In other words, the person in charge must be accountable for answering, managing, and deciding any Shariah-related issues based on Shariah knowledge, skills, experience, and qualifications. Perceivably, Shariah competency reflects the image of EMERALD. Shariah officers who struggle to manage Shariah matters would adversely impact the Shariah governance practices in this institution.

Nevertheless, qualification in Shariah is not the only key factor in becoming Shariah competent under the Shariah risk management function. In line with Shariah Risk Management Officer 2,

“Before this, the requirement was ‘qualified Shariah officer’. But now, under SGPD 2019, the requirement stated ‘an officer’ only. BNM wants it that way.”

The minimal qualification was not specified post-SGPD 2019. Officers with requisite knowledge of Shariah requirements can be appointed as Shariah risk management officers. Although the Shariah qualification does not align with the job scope of a Shariah risk management officer, it is accepted in EMERALD. As highlighted by Shariah Risk Management Officer 2,

“The qualified Shariah officer is appointed under the Shariah Division, while the Shariah officer without specified qualifications is appointed under

the control function. So, if there were Shariah issues, we can always seek advice from the qualified General Manager at the Shariah Division.”

Qualified Shariah officers should have suitable qualifications in Shariah risk management following SGF 2010. However, SGPD 2019 requires Shariah risk management officers to have requisite knowledge to perform their roles within the control function and qualified Shariah officers at the Shariah Division to ensure Shariah compliance. The new policy safeguards compliance with Shariah principles in EMERALD, while the structure allows Shariah officers in control functions to seek guidance from Shariah Division officers regarding any Shariah-related issues they encounter, thus upholding Shariah compliance and informed decision-making.

Regardless, this situation would induce problems for a new joint officer in the first phase of working under Shariah risk management. They would encounter challenges in understanding the tasks to be performed. As mentioned by Shariah Risk Management Officer 1,

“Many things need to be learned in a faster mode.”

Currently, EMERALD follows SGPD 2019 and requires the risk officers performing the Shariah risk management task to possess the necessary knowledge of Shariah requirements relevant to Islamic financial business. The independent initiative in identifying internal policy guidelines, manuals, or reports is necessary for competency in Shariah-related matters. Shariah Risk Management Officer 1 shared his experience as a newcomer under Shariah risk management,

“I went for a one-year training for a Certificate on Professional Shariah Auditor. The focus is on Shariah audit, but one of the modules focuses on Shariah risk management. So, from this training, I gained knowledge and exposure to Shariah matters.”

In this case, training is key to providing more knowledge and exposure to Shariah-related matters and increasing Shariah competency to prevent customers from deviating from *aqad*. The Shariah officer involved would need to undergo training by the town hall, where the Heads of Shariah Function and Branch Management would share their expertise, knowledge and experience while managing Shariah non-compliance issues. The Head of Shariah Risk Management Function said,

“The challenges, the resistance, are there in any bank, but we have to challenge it back. For example, we currently do have a non-Muslim as our boss. From what I can see, this is closely related to their competency in Shariah matters. They are not well versed in the Shariah requirement. Especially the previous boss, who is also a non-Muslim, did not attend to the Shariah matters at all. They did confess to BNM; why not put the ultimate responsibility on the Head of Control Function? They are the ones who manage everything. However, this is what BNM wants; we have to obey it.”

All institution members must be competent in Shariah-related matters or risk, thus reducing the lack of supervision on Shariah judgement and assessment of Shariah non-compliance. In the case of EMERALD, the institution was able to sustain its Shariah governance practices (from the issuance of SGF 2010 to date) by ensuring the capability of the Head of Shariah Risk Management and the Shariah officers to perform the Shariah control function. According to the Head of Shariah Risk Management Function,

“What will the EMERALD do to manage the risk if the big boss is not competent enough to do it? So, they must ensure that those who are appointed as the Head of the Control functions, the person must be capable enough to perform that function.”

Shariah competency has been integral to EMERALD since its infancy, where “.... only one or two Shariah officers are appointed in a business unit to help on any Shariah issues”, including General Managers. Essentially, integral highlights an adherence to Shariah principles that has been a core and fundamental aspect of EMERALD's operations from the beginning. It signifies that Shariah compliance is not a mere afterthought or the secondary consideration but rather a deeply embedded and essential element of EMERALD's identity

and operations as an Islamic bank. Although this had been practised until the issuance of SGF 2010, BNM intended EMERALD to continue implementing double reporting for their control functions. As declared by the Head of Shariah Risk Management Function,

“BNM accepted what we have done as among the best practices, and they see it as oversight enhancements towards the control functions.”

EMERALD was encouraged by BNM to implement double reporting for their control functions. The General Manager at control functions was required to report to both their immediate supervisors within their respective departments and to the Shariah Division. This dual reporting structure was intended to enhance oversight and ensure that Shariah principles were integrated into all aspects of control function activities.

This implementation proved more challenging when a non-Muslim was appointed to the role of Chief Risk Officer of the Risk Management Division. As narrated by the Head of Shariah Risk Management Function, the first non-Muslim Chief Risk Officer in EMERALD struggled to manage Shariah-related matters and diverged from managerial requirements despite being given a one-year transition period to gain exposure and acquire the requisite knowledge. Nevertheless, the current Chief Risk Officer, who is also a non-Muslim, sought guidance from the General Manager and Chief Shariah Division, Shariah risk management officers, and those with adequate Shariah knowledge, backgrounds, and experiences to internalise Shariah matters during the one-year transition period.

Shariah Risk Management Officer 2 deemed EMERALD to be secure as the non-Muslim Chief Risk Officer has developed enough competence to give reminders, advice, or ideas to Shariah risk management team members in preparation for the BNM review. She also proposed developing tools annually to ease the Shariah risk assessment work

process and provide justification for Shariah non-compliance issues. Shariah Risk Management Officer 2 stated,

“Even though she is a non-Muslim, she is a good leader who wants to ensure the Shariah compliance culture was continuously improved and smoothly done and at the same time able to mitigate the Shariah non-compliance events.”

Effective Shariah compliance requires not only compliance with Shariah principles but also strong leadership, effective risk management, working collaboratively with Shariah experts, and a commitment to continuous improvement regardless of their religious background.

5.4.2.3 Transformation of Procedures and Practices

Shariah Risk Management Officer 1 mentioned several examples of the translation of practices into procedures or the transformation of existing procedures or practices into new procedures or practices in Shariah risk management. The first example entails the Potential Shariah Issue term. Shariah Risk Management Officer 2 explained,

“Potential Shariah Issue is not stated or required under SGPD 2019. We only have Potential Shariah non-compliance events and Actual Shariah non-compliance event terms. However, it is common for us in the Shariah risk management function to determine the Potential Shariah non-compliance event term since the issuance of the SGF 2010. And until now, after the issuance of the SGPD 2019, we have tried to embed these practices of determining Potential Shariah non-compliance event terms into our Shariah risk assessment work process in Shariah risk management. The term is now being used as one of the guidelines in our Shariah risk management policy”.

Coined by the Shariah risk management function, the term ‘potential Shariah non-compliance event’ is considered an additional step in the process of determining whether a

loss event or Shariah risk is a potential Shariah non-compliance before investigation (see Appendix III and Appendix IV) on Potential Shariah Issue, which complies with SGF 2010 and SGPD 2019. Shariah Risk Management Officer 2 added,

“The term is not used in SGPD 2019 and not in other IFIs but exclusively used in EMERALD, which is validated by us (Shariah risk management).”

Changes in the process or procedure to execute certain tasks depend on either the internal requirement in EMERALD itself or external requirements, typically by the regulatory body of BNM. Other divisions or control functions could similarly influence the transformation of existing procedures or practices into new ones. According to Shariah Risk Management Officer 1,

“The identification of a new risk in the Shariah Division or other control functions necessitates a new procedure in Shariah risk assessment.”

Occasionally, the documentation itself must be updated. This internal process only requires approval from either the Head of Shariah Risk Management or the Chief Risk Officer. Another example given by Shariah Risk Management Officer 2,

“....is when we make a plan for next year”.

This annual planning, which is not reflected in any Shariah risk management guideline or EMERALD policy, reviewed the Shariah contract policy document where new risks were identified and included under the risk control self-assessment (RCSA) results. Despite not being a requirement in GPS 1 2004, SGF 2010, or SGPD 2019, the Shariah risk management in EMERALD has executed this yearly planning. No changes were made to the workflow and standard operating procedure concerning the new products or upgrading existing ones. Regardless, the risk identified in each product would necessitate enhanced product control, specifically amidst Shariah non-compliance. A high level of control would be exerted until the products become Shariah-compliant and marketable to the public.

5.4.3 Shariah Audit Function

IFIs must be audited based on Shariah and conventional to uphold operational transparency and disclosure to the public. Four control functions, including the Shariah audit, were evident in SGF 2010. Meanwhile, the three other counterparts (Shariah review, Shariah research, and Shariah risk management) were under the Shariah Division. Shariah audit existed independently under the Internal Audit Division.

Such a finding is confirmed by the Head of Shariah Audit Function of EMERALD,

“Let’s refer to these briefing session slides. The Internal Audit Division institutional chart shows clearly here that we are under the Internal Audit Division. We are not under the Shariah Division, so, in terms of the progression from SGF 2010 until now, SGPD 2019, the Shariah audit is still under the Internal Audit Division. There are no changes.”

He further added,

“Our roles, our reporting lines and our functions remain the same from SGF 2010 until now, SGPD 2019.”

The Head of Shariah Audit Function indicated the absence of a Shariah audit in EMERALD before the issuance of SGF 2010. Auditors from the Internal Audit Division, who performed operational auditing for EMERALD, also audited for Shariah elements as part of the operational audit. The officer mentioned, “There was no dedicated Shariah audit team during that time, and when SGF 2010 came into the picture, then only the function of Shariah audit was created”. Both SGF 2010 and SGF 2019 rendered it compulsory to establish a Shariah audit control function under the Internal Audit Division. The Head of Shariah Audit Function explained why a Shariah audit should not fall under the Shariah Division,

“The definition of Shariah audit, according to SGF 2010 as well as SGF 2019, is stated as the function that provides independent assessment. So, whenever there is an independent assessment, the function should be independent of the management and EMERALD operation; to be independent is too “stand-alone”, or, in other words, an audit”.

In terms of the reporting line, the Shariah audit officers under the Internal Audit Division reported to the Chief of Internal Auditor, who then directly reported to the Audit Committee. No reporting would be done to the management to ensure the autonomy of the Shariah audit function.

Both Shariah Audit Officers 1 and 2 expressed that the Shariah audit team only changed with the advent of SGF 2010 and SGPD 2019, which required a detailed audit of Shariah compliance in each process under EMERALD’s divisions and departments. As explained by Shariah Audit Officer 1,

“Before the formation of four control functions, our audit planning primarily focused on Shariah compliance checking only. However, following the issuance of SGF 2010, three of the control functions (Shariah review, Shariah research, and Shariah risk management) were placed under the Shariah Division. This shift significantly altered our audit planning and approach, with the primary focus towards comprehensive audits of the Shariah Division itself.”

In principle, the restructuring of EMERALD led to a narrower and deeper audit scope. The focus was on the Shariah compliance of internal controls and processes within the Shariah Division instead of overall Shariah compliance across EMERALD. Shariah Audit Officer 2 added,

“And later, the issuance of SGPD 2019 further refined this structure as an independent control function. Therefore, we tailored our audit planning and focus to each audit entity, the Shariah Division, the Shariah Compliance function, and the Shariah Risk Management function.”

The specific Shariah rules, requirements, and decisions from the Shariah Committee and BNM constitute parts of the detailed audit performed by the Shariah auditor following the issuance of SGPD 2019 compared to SGF 2010 and GPS 1 2004. The independence of the Shariah Division and control functions requires a nuanced and targeted audit approach to ensure the efficiency of the Shariah Division and each control function within the overall Shariah governance practices.

5.4.3.1 Knowledge in Shariah is a Priority

Notably, knowledge of Shariah is vital. Educated Shariah audit officers related more to Shariah competency or demonstrating Shariah-related knowledge and experience than to team members' qualifications. Even BNM did not state the requirement of Shariah qualification for Shariah audit officers in SGF 2010, IFSA 2013, and SGPD 2019. Nevertheless, a Shariah audit officer must not only understand how Shariah principles apply to personal conduct, personal attire, and social interactions but also diverse aspects of business transactions. Having a Shariah audit officer with sound Shariah knowledge of daily life routines and business activities can benefit the institution, which is aligned with the responses by Shariah Audit Officer 2 in Section 5.8. The Head of Shariah Audit Function further elaborated,

“When we do a Shariah audit, we look out for areas about Shariah matters. We call it Audit Universe because all the Shariah Divisions and departments in EMERALD will be in our list of auditable entities. That is why we should have educated and knowledgeable Shariah audit officers.”

The Head of Shariah Audit Function underscored the importance of possessing Shariah-related knowledge. The officers would have gained such knowledge from previous working experiences before joining EMERALD or any training, seminars, or short courses attended

after joining EMERALD. Additionally, the officers must be well-versed in Shariah compliance values, norms, and culture in Shariah governance practices to perform Shariah audits. Such an audit ensures that the practices are implemented following Shariah requirements from internal requirements or the regulatory body. As mentioned by the Head of Shariah Audit Function,

“Yes, it’s true that when we do an audit, we have our Audit Planning Memorandum. A very detailed planning was done earlier.”

The Audit Planning Memorandum has been executed annually from the issuance of SGF 2010 to SGPD 2019, with differences in the planning details, which must complement the current situation. Four new control functions need to be audited when BNM issued SGF 2010. Hence, the list of auditable entities should be amended accordingly, as audits on Shariah matters under GPS 1 2004 were performed by only checking related Shariah processes.

Nevertheless, the audit was previously performed without any internal papers, documents, or guidelines from the Shariah Committee or references to minutes of meetings to ensure the implementation of Shariah-compliant practices. Shariah Audit Officers 1 and 2 elaborated that,

“...there should be a guideline, or a decision made by the Shariah Committee or the BOD related to the auditable entity or area stated in their minutes of meeting for us to take as a guideline in doing the Shariah audit process.”

Such auditing of Shariah matters was permissible under GPS 1 2004, as EMERALD relied on operational audits. The checks on Shariah matters constituted part of the operational audit when the auditor performed a risk audit.

Although GPS 1 2004 stipulated audit qualification to become the operational auditors in EMERALD, this requirement changed when BNM issued SGF 2010. The Head of Shariah Audit Function, Shariah Audit Officer 1, and Shariah Audit Officer 2 affirmed that,

“Last time, before SGF 2010, appointed auditors were mainly from auditing qualifications and backgrounds. Not on Shariah at all. So, when they audit, it will be based on the APM only. But to what extent they understate about Shariah requirements is not available.”

The Head of Shariah Audit Function further added,

“.... now it’s different.”

Any decisions approved by EMERALD’s Shariah Committee in the minutes of meetings were perceived as references for the audit process. Considerations were also placed on decisions made by the Shariah Advisory Council and the Shariah Committee. Nevertheless, the focus of the audit process changed post-SGF 2010. Shariah auditors no longer undergo minutes of meetings, but rather they are more independent in doing their work, provided the objectivity of the audit is not compromised. The previous Shariah auditor possessed an auditing background, lacking the requisite Shariah expertise. However, SGF 2010 required a Shariah auditor equipped with adequate Shariah knowledge. Shariah auditors possessed dual competency in both Shariah and auditing.

A similar occurrence was documented when BNM issued SGPD 2019, with the regulatory body emphasising the development of audit technology, an audit plan, an audit report, and an audit reporting line. Hence, the Shariah audit team must be knowledgeable in Shariah-related matters for high Shariah compliance and effective implementation of BNM strategies or risk making uninformed decisions. As the Head of Shariah Audit Function mentioned,

“To have an auditor with a Shariah background and qualification would be the only challenge after the issuance of SGF 2010. Because EMERALD must comply with the policy of BNM, where all the auditors for the Shariah audit control function must have a Shariah background and know how to do audits. No specific qualifications required.”

SGPD 2019 strengthened the requirement for Shariah auditors to obtain the requisite knowledge of Shariah requirements. Subsequently, the requirement for a Shariah auditor’s competency is made stricter whereby they now must possess a deeper understanding of Islamic principles. This ensures that Shariah audits are conducted more accurately and Shariah-compliant adherence by the audit entity.

Essentially, BNM intended all Malaysian IFIs (including EMERALD) to have four control functions, including Shariah audit through SGF 2010. The Shariah audit function is initiated at this point, albeit with structural changes to the Audit Universe programme. As stated in SGF 2010, the institutional structure, management position, and other processes and documents of EMERALD underwent restructuring following the development of new rules and regulations. Amendments and adjustments of existing rules and regulations were implied in EMERALD to suit the institution’s new structure and reporting line, and the incorporation of novel processes and documents to ensure Shariah compliance significantly and indirectly affected the Shariah audit process.

Furthermore, IFSA 2013 was introduced to strengthen the requirements of SGF 2010 and SGPD 2019. Shariah Audit Officers 1 and 2 agreed to this statement. Although the Head of Shariah Audit Function reiterated the term ‘no changes’, the process underwent specific changes. Only the Shariah audit process remains unchanged from the issuance of SGF 2010 to that of SGPD 2019. The Head of Shariah Audit Function claimed,

“There were no changes to the audit process.”

This statement suggests no significant alterations to the general procedures or APM. As mentioned by the Head of Shariah Function

“But the restructuring did have a slight impact towards our audit process.”

However, following EMERALD’s restructuring of the reporting line under the Shariah Division and further restructuring of the internal control functions, it becomes evident that specific changes were implemented. These changes involved minor adjustments or modifications to the audit entity, while the core audit process remained unchanged since the issuance of SGF 2010. The specific methods and procedures used to assess Shariah compliance have not been altered. Briefly, while there were some adjustments to the overall process, the fundamental method of Shariah auditing remained consistent.

EMERALD's journey towards robust Shariah governance has been marked by significant paces, particularly in addressing the challenges related to independence and risk management. One of the main challenges encountered by EMERALD was ensuring the independence of Shariah control functions, such as Shariah compliance, Shariah risk management, and Shariah audit. To address this issue, EMERALD implemented a single reporting line structure, which requires these functions to directly report to the Chief Compliance Officer or Chief Risk Officer, thus ensuring their independence from the Shariah Division. Furthermore, the establishment of a Shariah non-compliance working group has been crucial in harmonising Shariah governance practices and encouraging transparency in reporting lines. This working group, involving representatives from the Shariah Division and Shariah control functions, meets regularly to discuss Shariah non-compliance issues, review processes, and share best practices. Collaboration and knowledge sharing by this working group have contributed to more efficient and effective Shariah governance practices. Another factor driving the shift of Shariah governance practices is the competency of Shariah officers. EMERALD has invested in the training and enhancement of its Shariah professionals to guarantee that they possess the required

knowledge and skills to execute their roles effectively. The ongoing training programme has enabled the Shariah officers at EMERALD to be kept updated on the latest Shariah developments. The development of comprehensive internal policies, instruments, and procedures is another key aspect of EMERALD's Shariah governance framework. The Audit Planning Memorandum, Shariah Review Guidelines, and Compliant Risk Assessment, in addition to the Shariah Committee Charter and Secretariat, are among the instruments developed internally by the control function to provide a clear framework and guidelines for Shariah-related activities, thus ensuring consistency and adherence to Shariah principles. These policies, instruments, and procedures are consistently reviewed and updated regularly to enable EMERALD to adapt to changing situations and requirements.

5.5 SUMMARY

This chapter presented detailed findings on the change in Shariah governance practices at EMERALD. The data collected through interviews with Shariah officers reveal a systematic institutional response to regulatory demands, public expectations, and internal commitments to Islamic values. EMERALD's development of robust Shariah governance practices reflects the practical challenges and adaptive strategies undertaken to ensure compliance and operational integrity in Islamic banking.

Several key regulatory milestones shaped EMERALD's Shariah governance structure, beginning with BNM's issuance of GPS 1 (2004), SGF 2010, IFSA 2013, and SGPD 2019. These frameworks, while broad in scope, prompted EMERALD to establish more detailed and internally tailored EMERALD's governance mechanisms. Additionally, EMERALD was able to be ready for regulatory changes from SGF 2010 to SGPD 2019 by

using the Exposure Draft (2017) issued by BNM as a consultative and transitional tool. This made implementation easier and encouraged early change adoption. Among the notable reforms was the formation of specialised Shariah control functions – Shariah audit, Shariah compliance, and Shariah risk management – as mandated under SGPD 2019. These structural changes were supported by the establishment of clear and independent reporting lines, ensuring that each control function could operate with autonomy and report directly to the appropriate authority, typically the Board Audit Committee or Shariah Committee, without undue influence from operational departments.

In addition, EMERALD introduced a suite of governance documents and instruments to formalise roles and responsibilities. Each Shariah control function was equipped with its function charter, delineating scope, authority, accountability, and interaction with other departments. The introduction of Shariah governance manuals, compliance reporting templates, and Shariah non-compliance registers further transformed these practices, offering clear procedural guidance and enhancing operational transparency. The formation of an independent Secretariat to the Shariah Committee served as an administrative and research support hub, bridging communication between the Shariah Committee and the control functions while maintaining the independence required under SGPD 2019.

Findings further show that the independence and competency of Shariah control functions have been critical in mitigating Shariah non-compliance risks. EMERALD strengthened its Shariah governance through the recruitment and training of qualified personnel, enhancement of internal review processes, and integration of Shariah risk management tools such as the Compliance Risk Assessment (CRA). Regular audits, top management support, and the structured reporting system were key factors in embedding a Shariah compliance culture throughout the institution.

In conclusion, EMERALD has shifted its Shariah governance practices in response to regulatory developments, operational complexities, and stakeholder expectations. Through a structured approach to internal controls, human capital development, policy documentation, and institutional reforms, the bank has built a practice that promotes effective Shariah compliance and preserves its integrity as an Islamic financial institution. These case studies provide intense evidence and a concrete foundation to support further discussion in the next chapter on institutionalisation in EMERALD. This connection allows for a deeper understanding of the evolutionary changes, the force factors associated and the routinisation of rules in EMERALD.



CHAPTER SIX

INSTITUTIONALISATION IN EMERALD

6.1 INTRODUCTION

This chapter clarifies how EMERALD, an Islamic bank governed by BNM, is institutionalising its Shariah governance practices. Its objective is to explain the evolution of Shariah governance from regulatory compliance to an institutional framework that is both rooted and structured in EMERALD. Based on institutional theory, this chapter mainly explores how Shariah governance practices in EMERALD have institutionalised and maintained their Shariah control functions, using the ideas of isomorphic pressure, evolutionary change, and routinisation of rules.

Analysing the isomorphic pressures that have shaped EMERALD, such as industry norms and regulatory mandates, was the first step in the discussion. It then explores how evolutionary processes, characterised by both formal transformations and loosely coupled adaptations, have led to institutionalisation. These evolutionary modifications demonstrate EMERALD's capacity to gradually adapt existing routines in response to external demands while preserving internal coherence. This chapter also examined through the lenses of NIS and NIE and made a comparison with other institutional theory studies to provide insights into institutionalisation in EMERALD.

Case studies by Nor Aziah and Scapens (2007) and Norhayati and Siti Nabiha (2009) showed similar institutional traces, utilising both formal and informal mechanisms. More recently, Dua (2024) and Nasir et al. (2021) mirrored EMERALD's internal

adaptation efforts by responding to regulatory frameworks and incorporating Shariah principles into institutional operational structures.

Studies by Ali and Ifraq (2024) and Alam et al. (2021) emphasised how embedded cultural and religious expectations shape institutionalisation in Islamic banks. The findings from Ammar et al. (2025), Karbhari et al. (2020), and Padmasiri and Ajward (2023) illustrated the routinisation of rules gradually develops, parallel to EMERALD's institutionalisation of Shariah governance practices. The routinisation of Shariah governance in this study has been examined using Burns and Scapens' (2000) framework. The focus is on each of the three Shariah control functions: Shariah audit, Shariah compliance, and Shariah risk management.

A deeper understanding of how Shariah governance practices have undergone structured institutionalisation to become part of the day-to-day operations within EMERALD has been contributed to this chapter. Next is a detailed discussion on the pressures that influenced the institutionalisation of EMERALD.

6.2 ISOMORPHIC PRESSURE IN EMERALD

The external institutional forces that influenced institutionalisation are equally important to be examined in building the structured transformation of Shariah governance practices within EMERALD. According to institutional theory, institutions often undergo similar changes due to isomorphic pressures, which typically take three forms: coercive, mimetic, and normative. EMERALD, along with other Malaysian Islamic banks, are required to adhere to the specific regulations and requirements issued by BNM through GPS 1 2004,

SGF 2010, IFSA 2013, and SGPD 2019. "How does the evolution of Shariah governance happen in Malaysian Islamic banks?" Examining the development of Shariah governance practices was the goal of the current study (Ali and Ifraq, 2024), particularly considering recent regulations and guidelines pertaining to Shariah governance practices that were issued by the BNM. Over time, these adjustments were certain to cause changes in EMERALD.

EMERALD is one of the Islamic banks that pioneered the implementation of Shariah rules and regulations. When some of the EMERALD members were appointed to BNM's Shariah Advisory Council, as the first committee in the development and implementation of Shariah governance, these rules were initially routinised. As the General Manager pointed out,

"At that time, two of our members, Tan Sri Syeikh Razali Abdul Rahman and the late Datuk Hashim Yahya, were appointed to occupy positions at Bank Negara Malaysia. The reason is that it is more important for the development of the Islamic banking system in the country."

Although the bank had to find replacements for these people, EMERALD saw this appointment favourably. The bank encouraged these people's contributions to BNM's Shariah Advisory Council because it acknowledged their vital role in the creation of the national Islamic banking system (Abdul Hadi and Muwazir, 2021).

Additionally, Islamic banks were significantly impacted by the release of GPS 1 2004, which was the first set of Shariah Governance standards issued by BNM. As per Wasim et al. (2021), GPS 1 introduced a requirement that members of the Apex Authority and Shariah Advisory Council of BNM could not concurrently serve on the Shariah

Advisory Councils (also known as Shariah Committee) of other Islamic banks. The General Manager claims that,

“Whoever sits in the Apex Authority, Shariah Advisory of Bank Negara Malaysia, he should no longer sit at the player level.”

To preserve independence and objectivity within the Shariah governance framework, it was determined that this division of duties was necessary. EMERALD was able to comply with the attestation requirements at the time SGF 2010 was released. The General Manager went on to say,

“Easily we can comply because we have been practising it, and there was no problem when BNM asked us to submit our verification of compliance.”

EMERALD's proactive implementation of many of the practices and procedures expected by BNM before the issuance of SGF 2010 facilitated its swift compliance with the standard.

Shariah governance practices in Malaysian Islamic banks demonstrated the gradual development made by BNM through several progressive measures to enhance Shariah governance. GPS 1 2004 marked the beginning, followed by SGF 2010 and SGPD 2019. The regulatory framework was progressively strengthened and refined as each step built upon the one before it. Notably, EMERALD underwent an evolutionary rather than a revolutionary change, necessitating an unaffected, top-down procedure. To maintain compliance and enhance current procedures, EMERALD was inspired by the evolving framework to adapt and refine its best practices. Despite the need for internal modifications, the appointment of EMERALD members to the BNM's Shariah Advisory Council was viewed as a step in the right direction towards fortifying the Shariah governance framework for the whole Islamic banking industry.

As the evolution of rules and requirements led to isomorphism, EMERALD was able to conform to the formal frameworks and practices maintained in the institutional setting (Young, 2020) to acquire credibility and secure the resources necessary for their expansion (Alam et al., 2021; Nasir et al., 2021). As demonstrated by the evolution of the Shariah governance framework between 2004 and 2019, this circumstance arose when EMERALD was propelled by coercive isomorphism from BNM. The new structural framework of four Shariah control functions as viewed in SGF 2010 and the imposition of regulations and requirements on the Shariah Committee under GPS 1 2004 marked the beginning of coercive isomorphism. Although SGF 2010 is voluntary, under IFSA 2013, Shariah governance, more especially, management roles and functions, was reinforced by penalising Islamic banks that deviated from the rules and did not comply with Shariah compliance requirements. According to the Chief Shariah Division,

“IFSA 2013 is a sequel to IBA 1983. But IFSA 2013 is more comprehensive. It contains the law for Islamic banks that must be complied with. Failure to comply with this law can be subject to a fine of RM25 million- and 8-years imprisonment.”

IFSA 2013 provides a clear legal framework to ensure compliance, and any irregularities will be met with severe consequences. This represents a revolutionary change in Shariah governance for Islamic banking in Malaysia. The existing regulatory framework (i.e., IBA 1983) had less stringent enforcement mechanisms. However, IFSA 2013 introduced significant penalties for non-compliance, including an RM25 million fine and 8 years imprisonment. The enhanced regulatory framework ensures that Islamic banks adhere to Shariah principles (Alam et al., 2021) and operate within Islamic principles. This stricter enforcement not only protects the integrity and credibility of the Islamic finance industry (Ayob et al., 2024) but also promotes responsible and ethical financial practices. Introducing these stricter penalties with a more comprehensive regulatory framework in IFSA 2013 signifies a progressive advancement in the regulation of Islamic banking, driving the industry towards a more robust and ethical future (Kassim and Markom, 2020).

The article by Karbhari, Alam, and Rahman (2021) emphasised that institutional theory, particularly through coercive isomorphism, plays a crucial role in the institutionalisation of Shariah governance practices, and this regulatory evolution is in line with that point. Their analysis indicates that government policies, authoritative frameworks, and legal mandates are examples of coercive pressures that force Islamic banks to implement specific Shariah governance structures. This theory is demonstrated in practice by EMERALD's experience. Coercive isomorphism is embodied in the stringent enforcement under IFSA 2013, which requires Islamic banks to follow legally binding and religiously acceptable structures.

The paper by Ali and Ifraq (2024) which describes the development of Pakistan's Shariah Governance Framework, makes a similar point. The Central Shariah Board, internal and external audits, and compliance departments are just a few of the intricate governance structures that the State Bank of Pakistan (SBP) helped to establish, according to the study. These components stand for institutional pressures that have also caused coercive isomorphism among Pakistan's Islamic financial institutions. In this sense, top-down regulatory changes that institutionalised compliance through mandates rather than voluntary adoption affected both Pakistani and EMERALD institutions. For example, Malaysia's SGPD 2019 requirement for the creation of a Shariah Division is mirrored in Pakistan's mandatory creation of Shariah Compliance Departments and Internal Shariah Audit.

Lastly, EMERALD needs to fulfil the requirements for the Secretariat to the Shariah Committee function under SGPD 2019. The institutional structure of EMERALD was unavoidably altered by this mandate. According to the Chief Shariah Division,

“When BNM issued GPS 1 in 2004, there is a requirement for every Islamic bank to have a Secretariat, preferably a Shariah officer with a Shariah background.”

He further mentioned,

“There was no Shariah Division during that time. Now, we have a Shariah Division as a Secretariat to assist the Shariah Committee.”

The Shariah governance practices in EMERALD were institutionalised, both formally and informally. Although GPS 1 2004 and SGF 2010 recognised the significance of Shariah compliance, SGPD 2019's implementation was formal and more structured. Although they may have served as advisors, Shariah officers' roles and the Shariah governance framework were well defined. Additionally, every Islamic bank must establish a formal Shariah Division under SGPD 2019. To help the Shariah Committee make sure the bank's operations and products adhere to Shariah (Alam et al., 2023), the Shariah Division, under the direction of the Chief Shariah Division, serves as a Secretariat to the Shariah Committee. In the end, this guarantees adherence to Islamic principles and offers a clear framework for Shariah supervision.

Mimetic isomorphism is the tendency of institutions to imitate the actions of successful peers to acquire legitimacy; it usually appears in uncertain situations (Dua, 2022). Mimetic isomorphism was only relevant in EMERALD's early stages of formation, especially when it came to referencing global Islamic standards, like IFSB and those published by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). This took place before the regulator, Bank Negara Malaysia (BNM), had created a specific Shariah governance framework. To ensure sound Shariah compliance practices in the absence of specific regulatory guidance, EMERALD strategically adopted internationally recognised benchmarks. EMERALD's dependence on skilled Shariah

scholars and its active support of their appointment to national regulatory bodies such as BNM's Shariah Advisory Council are clear examples of normative isomorphism, which is influenced by professional norms and educational standards. Such normative pressures are essential for institutionalising Shariah governance practices in Islamic banks, as pointed out by Karbhari et al., 2021.

However, BNM's release of SGF 2010 marked an evolution in regulations. Since its Shariah governance practices were already in line with the intended governance standards, EMERALD had no trouble complying with SGF 2010, even though it was voluntary at the time of its introduction. As stated by the General Manager,

"Easily we can comply because we have been practising it, and there was no problem when BNM asked us to submit our verification of compliance."

This proved that many of the concepts later formalised by BNM had already been institutionalised by EMERALD.

In a similar vein, EMERALD showed minimal resistance after SGPD 2019 was put into effect, mostly due to the time needed to institutionalise the Shariah governance practices. A seamless transition to complete compliance with the new mandates was made possible by the bank's institutional structure and self-regulatory framework. Therefore, even though regulatory ambiguity caused mimetic isomorphism to impact EMERALD during its formative years, the institution's proactive development of internal best practices ensured that institutionalisation was evolutionary and consistent with emerging regulations rather than the product of reactive imitation.

However, the evolution of Shariah governance for Islamic bank growth has put EMERALD under pressure to manage its institutional members and guarantee Shariah compliance within business transactions, products, activities, and programs. BNM provided broad guidelines on how rules and procedures should be routinised. The Shariah governance issued by BNM starting from GPS 1 2004, SGF 2010, and SGPD 2019 is too broad and lacks specific details, making it challenging for Islamic banks including EMERALD to implement strict Shariah compliance in all their operations. This has led to the need for EMERALD to establish robust internal Shariah governance practices to bridge the gaps and maintain the integrity of its Islamic banking operations.

The broad and general guidelines allow for more flexibility and innovation in the Islamic banking industry, enabling Islamic banks to develop new products and services that cater to the evolving needs of their customers while still adhering to Shariah principles. The Islamic finance industry is growing rapidly. Therefore, issuing regulations that are too specific can stifle innovation and make it difficult to keep up with the changing landscape. The Islamic banking industry consists of a wide range of institutions, including banks, takaful operators, and investment funds. A one-size-fits-all approach may not be appropriate for all types of institutions. By issuing general guidelines, BNM is indirectly encouraging Islamic banks to develop their own risk management and internal control frameworks to ensure continuous compliance with Shariah principles.

By ensuring that EMERALD provides Shariah-compliant goods and services, the public, Shariah Committee, and distinguished academics have strengthened its Shariah governance practices through coercive isomorphism. However, it is up to the members of Shariah control functions to institutionalise BNM-issued rules and procedures in EMERALD in a way that leads to the routinisation of rules. If the main goals of Shariah

governance practices are met to guarantee Shariah compliance, the Shariah control functions are free to routinise the rules (Khatib et al., 2022).

There are several significant parallels and differences between the conceptual framework offered by Karbhari et al. (2021), the regulatory study by Ali and Ifraq (2024), and the empirical insights from EMERALD. All three emphasise how Shariah governance practices are institutionalised by coercive isomorphism, which is fuelled by central banks and legal frameworks. Both the Pakistani case and EMERALD were subject to strict regulatory guidance, but Pakistan's development was driven by regulators, whereas EMERALD was more proactive and significant in determining that course.

Notably, because it was one of the first, EMERALD did not experience mimetic isomorphism in institutionalisation, but Karbhari's theoretical model permits institutions to imitate peers in unpredictable situations. By elevating Shariah scholars and professional standards, normative isomorphism is demonstrated in EMERALD.

To sum up, EMERALD's experience is a rare example of a first-mover institution that influenced BNM's frameworks and policies while also conforming to institutional theory through normative and coercive isomorphic mechanisms, which are not mimetic in its governance practices. This distinguishes it from other Islamic financial institutions whose governance practices might have been established through imitation. Similar isomorphic mechanisms are visible in other jurisdictions, including Pakistan, according to the additional comparison with the paper by Ali and Ifraq (2024). From the Pakistani perspective, as emphasised by Ali and Ifraq, it stresses more centralised control and externally imposed institutional reforms, whereas EMERALD's experience reflects both

the institutionalisation of Shariah governance practices and the evolution of BNM's regulation.

6.3 INSTITUTIONALISATION THROUGH EVOLUTIONARY CHANGE

This section further explores how Shariah governance practices at EMERALD became institutionalised through a sequence of incremental and adaptive changes rather than a sudden transformation. Based on the findings, the next section of discussion highlights how EMERALD responds to isomorphic pressures through direct compliance, as well as by adopting new rules and routines in a manner consistent with their internal environment and operational judgement. The findings successfully addressed the following research question: “How does the evolution of Shariah governance happen in Malaysian Islamic banks?” In this vein, the first study objective, which aimed to explain the evolution of Shariah governance in Malaysian Islamic banks, was achieved. The institutionalisation of Shariah governance practices is key to ensuring compliance with Shariah (Ab Ghani et al., 2024). As defined by IFSB-10, Shariah governance is a set of institutional and organisational arrangements made to oversee Shariah compliance aspects in Islamic banks (Hasan, 2012). The institutionalisation of robust Shariah governance practices increases public confidence in the business aims, management, and operations (Masruki et al., 2020). The Shariah governance practices also catalysed the institutionalisation of governance structures, policies, and processes for overall Shariah compliance (Hasan, 2012) in Malaysian Islamic banks, including EMERALD.

Based on a comprehensive appraisal of Shariah governance practices in Malaysian Islamic banks, Malaysia is a leading country in regulating its Islamic finance industry, particularly from the Shariah governance aspect (Naysary et al., 2020). The systematic

literature review by Karbhari et al. (2020) found that applying the institutional theory in Shariah governance practices could generate guidelines, strategies, and procedures for EMERALD to effectively conduct, monitor, and control their social, religious, and accountability obligations within the institution. This theory relevantly explains the institutionalisation of Shariah governance practices in Islamic banks in this study. It is deemed vital for EMERALD to institutionalise Shariah governance practices for high Shariah compliance and public confidence in the industry. As an Islamic bank in Malaysia, EMERALD is subject to the process of institutionalisation following the shifts in Shariah governance over time (Hassan & Yusoff, 2020). As explained in Chapter Two, the evolution of Shariah governance practices in Malaysia (Khatib et al., 2022; Naysary et al., 2020; Kamaruddin et al., 2020) began in the early 1980s up to 2019 through BNM-issued GPS 1 2004, SGF 2010, IFSA 2013, and SGPD 2019, which served as the study focus.

The institutionalisation of Shariah governance practices in EMERALD perceivably followed the formal structures and procedures upheld in social and cultural environments (Alam & Miah, 2024). As a regulatory body that issues rulings for all Malaysian Islamic banks, BNM is empowered to render all Islamic banks in Malaysia (including EMERALD) coercive, mimetic, or normative isomorphic towards Shariah governance practices based on primary catalysts. As an institution, EMERALD willingly embraced Shariah governance practices despite periodical shifts until SGPD 2019. These practices have been effectively routinised and institutionalised to achieve legitimacy as an Islamic bank. In this case study, EMERALD is a Malaysian Islamic bank that placed much emphasis on Shariah governance even before its formalisation. This institution has excelled in institutionalising Shariah governance practices within the Islamic banking sector. In its infancy, EMERALD initially used the self-regulated SGF designed by its Shariah officers by referring to general guidelines on Islamic finance practices, such as IBA 1983, GPS 1 2004, and global policies and standards regarding Islamic finance practices.

Based on the findings, evolutionary change gradually occurred throughout the institutionalisation of the self-regulated framework. As an IFI, EMERALD faced minimal issues of revolutionary change that could threaten and force the early institutionalisation of Shariah governance practices. Regardless, EMERALD acknowledged the need for a more strong and formal Shariah governance framework (Basiruddin & Ahmed, 2020) with the growth and development of the Islamic banking industry. Changes mainly in the Shariah governance practices, institutional structure, and Shariah Committee composition catalysed the institutionalisation of Shariah governance practices in EMERALD to ensure Shariah-compliant products and services and good institutional reputation (Uyob et al., 2022).

6.3.1 Bridging the Regulatory Evolution

As a means of bridging the regulatory transition from the SGF 2010 to the SGPD 2019, BNM released the Exposure Draft (2017). BNM used a consultative and phased approach instead of enforcing abrupt regulatory change, which facilitated EMERALD getting ready for procedural shifts and institutional structural changes. This consultative approach is an example of an encoding stage, during which institutional settings were used to formally converse and foster the BNM's intentions.

Encoding is the process by which new rules are introduced, often formally documented but not yet completely integrated into routines or practices, according to Burns and Scapens (2000). The Exposure Draft served as a discursive and procedural tool that allowed BNM to induce institutional thinking, start behavioural change, and align internal procedures with the new policy document. The Chief Shariah Division highlighted,

“BNM would release the Exposure Draft and then gather feedback from the industry.”

He further claimed,

“They would look at how things were done and the impacts. That whole process took quite some time, involving a series of discussions.”

In addition, the Exposure Draft served as a preliminary regulation. Through surveys and feedback sessions with IFI stakeholders, including EMERALD, BNM strengthened this encoding process, enabling institutions to start enacting their Shariah governance practices effectively before the implementation of SGPD 2019.

The Exposure Draft provides Shariah officers at EMERALD a chance to make early decisions and update the standard operating procedures (SOPs), compliance templates, and decision-making procedures to reflect the anticipated regulatory change. According to the Chief Shariah Division,

“That’s why BNM firstly consulted the Islamic banking industry on how the banks were operating and how we might respond if the changes were implemented this way.”

This indicates a consultative regulatory approach, where BNM pursued to understand the institutions’ operational realities and potential institutional responses before formalising the new Shariah governance regulations under SGPD 2019. The early engagement allowed regulators to foresee challenges, minimise resistance, and safeguard the institutionalisation of new Shariah governance practices realistically and adaptable implementation.

This progression aligns with Siti Nabiha and Scapens (2005), where institutions' changes in accounting practices are influenced by the identified legitimacy and source of the rules. Their study showed that if rules are seen as imposed externally without hands-on development of new rules, resistance may occur. In the case of EMERALD, the Exposure Draft process encouraged consultative involvement and allowed EMERALD to start routinising the new rules before the regulatory enforcement took place. As noted by Yusof and Ali (2021), BNM adopted a phased policy development approach that included previous surveys and discussion papers to guarantee industry readiness. The encoding rules highlight the role of gradual adaptation in successful institutionalisation by minimising resistance, improving legitimacy, and linking the regulatory evolution (Giner and Arce, 2012).

A study by Soin et al. (2002) found that abrupt implementation of changes in management accounting systems often resulted in resistance, accentuating the significance of phased and participatory approaches. Their study showed how actors who are detached from the change process often exhibit resistance. Meanwhile, EMERALD's experience with having BNM consultation serves as a formal way of incorporating new expectations into institutional workflows. This way of encoding the new rules confirmed Giner and Arce's (2012) argument that stakeholder involvement in regulatory processes leads to better orientation between policy requirements and institutional response.

As such, the Exposure Draft served as a theoretical link between BNM's regulation and the institutionalisation of Shariah governance practices in EMERALD. Simultaneously, bridging the regulatory evolution between SGF 2010 and SGPD 2019. This intentional period of transition signalled the start of an evolutionary process that saw new regulations not only introduced but also progressively implemented and integrated into EMERALD's day-to-day operations. Despite reducing conformity and resistance towards

the regulator, BNM's strategy of introducing the Exposure Draft (2017) shortened the time taken for effective and sustainable institutionalisation of Shariah governance practices in EMERALD.

6.3.2 Loosely Coupling as an Enabler to Evolutionary Change

EMERALD's gradual transition from SGF 2010 to SGPD 2019 reflects an evolutionary process of institutionalisation enabled by a loosely coupled approach to regulatory adaptation. Rather than implementing sweeping reforms, EMERALD introduced incremental changes that allowed Shariah governance practices to gradually evolve and embed within existing structures. This reflects the findings of Hasbolah et al., (2018) in their study of Malaysian local government. The new KPI system was added as a secondary layer alongside existing practices, the dominant Annual Work Target (AWT), reflecting loose coupling and a gradual institutionalisation of new practices. Similarly, EMERALD's approach preserved operational flexibility and internal autonomy, allowing Shariah governance practices to embed over time while upholding institutional integrity. According to the Chief Shariah Division,

"We defer some of the requirements under SGPD 2019 until April 2023."

This means that BNM permitted delays if explanations were provided. The Head of Shariah Risk Management also stated that,

"...BNM can accept, provided we give justification on why we stick to our current structure."

In response to regulatory expectations, these statements demonstrate a flexible, negotiated adaptation. EMERALD's self-regulatory framework, which has remained loosely coupled

with the SGF 2010 and SGPD 2019, is a prime example of this flexibility (AlQassar and Ahmed, 2022). EMERALD retained operational discretion and tailored the implementation to its Shariah governance practices and structure, even though BNM's frameworks formalised some aspects of governance. This flexibility maintained the institution's self-regulatory framework and procedures while guaranteeing Shariah compliance.

This loose coupling is further highlighted by the Shariah Committee's composition. Originally consisting of three members, according to GPS 1 (2004), the number rose to five under SGF 2010 and stayed the same under SGPD 2019. However, term limits were introduced by SGPD 2019 and prohibited reappointment in the same institution after nine years. Despite being intended to reflect the Shariah governance practices of the Shariah Committee, the institutionalisation proved challenging for EMERALD because its long-serving Shariah Committee members had assimilated fully into institutional practices. As stated by the Chief Shariah Division,

"That's the challenge in this industry or perhaps the way of the industry."

These emphasise how difficult it is to enforce term limits in a field where long-serving Shariah Committee members are ingrained in EMERALD rules and routines, making it challenging to enact regulatory change.

One important aspect of loose coupling is the conflict between existing rules and routines and new regulatory requirements, which is highlighted by the difficulty in replacing these long-serving members. When SGF 2010 was first released, there were worries that EMERALD's self-regulated system might be completely replaced. As noted by the Head of Shariah Compliance,

“Some of the requirements under SGF 2010 did trigger our self-regulated framework, but if you don’t want to comply, you have to justify it to Bank Negara.”

These "mixed feelings" highlight the fine line that separates internal autonomy from externally imposed structures. However, EMERALD adapted without protest, demonstrating a ceremonial adoption of formal structures while maintaining internal control, which is in line with loose coupling.

This phenomenon is consistent with Norhayati and Siti-Nabiha’s (2009) study that looked at the institutionalisation of a performance management system (PMS) in a company connected to the Malaysian government link company. According to their research, PMS structures were formally adopted in response to normative and coercive pressures from the government and important stakeholders, but they were not closely linked to the day-to-day operations of the institutions. The PMS was less of a practical tool for performance management and more of a ceremonial way to demonstrate legitimacy.

Another study on accounting change in a Malaysian public utility (PSP) by Nor Aziah and Scapens (2007), claims that the idea of loose coupling was not only viewed as a result but also as a process that was influenced by power dynamics, social relationships, trust, and resistance within the company. Instead of reflecting embedded change, they observed that accounting innovations brought about by corporatisation became disconnected from operational routines, reflecting ceremonial compliance with external demands for efficiency. EMERALD's adjustment to SGF 2010 and SGPD 2019 is an example of a loosely coupled change, in which the institutional structure changed to conform to regulatory requirements without completely disrupting internal operational practices. Similarly to the PSP, EMERALD's Shariah control features were symbolically

combined to satisfy formal requirements while maintaining independence and adaptability in daily operations.

Another instance of loose coupling as an enabler of evolutionary change is the restructuring of EMERALD's Shariah officers and reporting lines under SGPD 2019. Under SGF 2010, all four Shariah control functions are under the control of the Chief Shariah Division. To improve function specialisation, eliminate conflicts of interest, and establish a distinct independent reporting line, SGPD 2019 required a structural realignment into just three functions. In response to SGPD 2019, EMERALD established a separate Shariah Division under the direction of the Chief Shariah Division, which serves as the Secretariat to the Shariah Committee. The Secretariat is loosely coupled with the Shariah Committee since the Secretariat's function is to assist the Shariah Committee regarding Shariah matters and at the same time assist the General Manager with administrative tasks. This was affirmed by the Chief Shariah Division,

“The priority is to Shariah Committee, but we help do the administrative work for General Manager.”

The Secretariat to the Shariah Committee is a valuable tool for improving the Shariah Committee's work. As the implementation intention was pre-determined by BNM as the only regulatory body for IFIs in Malaysia, these changes were deemed formal rather than informal. These adjustments formalised the structure without undermining EMERALD's routinisation of rules.

The institutional structure of EMERALD underwent a major transformation, through which four new Shariah control functions (Isa et al., 2020) were developed as per Appendix I and Appendix II. The changes to the institutional structure in EMERALD are loosely coupled with the evolution of Shariah governance in contributing to the growing

complexity of its business operations (Ayub et al., 2024). As mentioned by the General Manager and agreed by the Chief Shariah Division and Head of Shariah Compliance,

“It is a must, this is a requirement from the regulator under SGF 2010. We must have all these four functions, Shariah audit, Shariah review, Shariah risk management, and Shariah research and show it clearly in the institutional structure of EMERALD.”

The Head of Shariah Compliance further added,

“...when SGPD 2019 was issued, once again we changed the institutional structure, and we find it far better. The reporting line and the responsibility more focused and clearer.”

Despite these changes, internal culture remained intact, and adjustments were made to the institutional structure, reporting lines, and institutional members, all without compromising operational autonomy. While maintaining fundamental institutional rules and routines to guarantee Shariah compliance and reduce the risk of Shariah non-compliance, Shariah officers under each control function now clearer with their specific tasks and responsibilities and clarify on the reporting line. The evolutionary changes to the institutional structure in EMERALD are loosely coupled with the evolution of Shariah governance in strengthening the institutional members' roles and functions.

The concept of loosely coupled institutional change is evident when comparing the cases of EMERALD, Hasbolah et al. (2018), Nor Aziah and Scapens (2007), and Norhayati and Siti Nabiha (2009). In each, the adoption of new systems was driven by external pressures. Hasbolah et al. (2018) case study where a KPI-based performance system served as a mechanism rather than replacing existing AWT routines reflected a loosely coupled arrangement that allowed for an institutionalisation of new practices. Unlike in the cases of PMS and PSP, new frameworks were adopted ceremonially to demonstrate legitimacy, without significantly altering internal behaviours or routines. These studies highlight how

loose coupling allows institutions to adapt to external expectations while preserving internal stability. EMERALD, however, demonstrates a more adaptive use of loose coupling rather than ceremonial, which allows existing Shariah governance practices to coexist with regulatory requirements by BNM, leading to evolutionary change. EMERALD highlights how loose coupling acts as a deliberate strategy for enabling evolutionary and sustained institutional change flexibly.

6.3.3 Formal and Progressive Evolutionary Changes

Shariah governance practices were institutionalised in EMERALD through a series of formalised, gradual changes fuelled by internal adaptation and regulatory evolution rather than through sudden overhauls. An evolutionary change in EMERALD is the progression of Shariah governance practices following the evolution of SGF 2010 to SGPD 2019. Instead of being abrupt and drastic, the changes were small and steady. Shariah Committee requirements were gradually modified in the case of EMERALD, while Shariah control functions were developed over time. This institutionalisation works well and gives EMERALD the ability to hold changes in the Shariah governance practices more gradually and manageably by allowing the Shariah officers to readily adjust to the changes.

An evolution from SGF 2010 to SGPD 2019 can also be seen as a progressive change, aiming to improve the effectiveness of Shariah governance (Alam et al., 2022) in IFIs. As stated by the Chief Shariah Division,

“Now, the Shariah division is an independent division, and the reporting line is clearer. We have a Secretariat to assist the Shariah Committee and Charter to confirm the Shariah Committee’s responsibility.”

This evolution highlights how the structural reforms introduced under SGPD 2019 enhanced the independence, clarity, and operational support of the Shariah governance practices within EMERALD.

The composition of the Shariah Committee also underwent a substantial shift during its evolution. At first, EMERALD's Shariah Committee had just three members under GPS 1 2004. This requirement was increased to five members with SGF 2010 and then maintained under SGPD 2019. However, SGPD 2019 added a crucial clause that restricts Shariah Committee members' service within the same IFI to a maximum of nine years, after which they cannot be reappointed. As emphasised by the Chief Shariah Division,

“SGPD 2019 put the Shariah Committee at the same level as BOD. This is new to us. Some of the requirements for the Shariah Committee, such as no reappointment after nine years of service at the same institution, follow the requirement of BOD in corporate governance.”

This evolution demonstrates how the SGPD 2019 structural reforms improved the Shariah governance practices operational support, independence, and clarity within EMERALD. Shariah governance is formally but gradually aligned with more general corporate governance practices (Alam et al., 2022; Bank Negara Malaysia, 2019). These improvements have promoted objectivity, avoided institutional entrenchment, and stimulated renewal, the policy implemented term limits, reflecting corporate governance expectations for board members (BNM, 2019). However, EMERALD faced challenges in finding and selecting new Shariah Committee members who were equally qualified, making the progressive change both operationally complex and necessary.

The transition from SGF 2010 to SGPD 2019 in EMERALD illustrates how institutionalisation can occur through gradual, structured regulatory reforms that enhance

Shariah compliance and align with evolving standards of governance, accountability, and legitimacy.

In the meantime, Shariah control functions were created to enhance the oversight of Shariah compliance. A significant restructuring of EMERALD's institutional chart was a further step under SGPD 2019. In the past, the Chief Shariah Division served as the supervisor of all four Shariah control functions. EMERALD revised this structure in response to SGPD 2019. Every control function report to its leader independently, and a separate Shariah division was set up to deal with Shariah issues. This allowed the Chief Shariah Division to concentrate mainly on administrative duties and Secretariat to Shariah Committee responsibilities. As stated by the Chief Shariah Division,

"I'm thankful that I can devote more of my attention to Secretariat matters, which require a lot of changes as mandated by SGPD 2019."

This reflects how the restructuring enabled a clearer division of responsibilities, allowing the Chief Shariah Division to focus on the Secretariat to Shariah Committee role in line with SGPD 2019 requirements. Such adjustments illustrate the formal and progressive nature of institutional change in EMERALD, where structural refinements were introduced gradually to improve governance efficiency without disrupting core operations. These changes demonstrate how regulatory evolution fostered operational clarity and supported the institutionalisation of Shariah governance practices, particularly by strengthening the institutionalisation of roles, functions, and reporting lines within the governance structure (Kamaruddin et al., 2024)

Additionally, following SGPD 2019, EMERALD progressively revised its institutional structure to reflect formal governance expectations. Each Shariah control function was made to report independently to its respective leader, while a separate Shariah division was established to manage Shariah-related matters. These changes proved formal

and progressive evolutionary change by gradually enhancing functional clarity and compliance oversight without disrupting the overall institutional practices. This aligns with recent findings that highlight how Malaysian Islamic financial institutions have advanced Shariah governance structures to improve transparency, accountability, and institutional legitimacy in response to evolving regulatory standards (Ali and Ifraq, 2024; Ab Ghani et al., 2024).

The formal aspect of change is also visible in EMERALD, where Shariah governance practices were codified through the documentation and alignment of changes made under SGPD 2019. According to the Chief Shariah Division,

"The corrective action and preventive action will be discussed with the staff at the branch who made the mistake after a report has been made, and the issues have been identified and investigated."

EMERALD formalised its compliance processes by institutionalising structured corrective and preventive actions, ensuring that Shariah governance improvements under SGPD 2019 were consistently implemented at the operational level (Fatmawati et al., 2022).

This kind of change is preferred by all institutional members including Shariah Committee, Senior Management and Shariah officers, because it is transparent and easy to understand. As a result, the transition of Shariah governance practices in EMERALD from SGF 2010 to SGPD 2019 was progressive, formal, and evolutionary. This institutionalisation facilitates the reproduction of Shariah governance routines, ensuring their sustainability and internal acceptance. Moreover, gradual implementation reduces internal resistance by allowing institutional members to adapt progressively to new expectations, thereby fostering greater acceptance and operational continuity (Fatmawati et al., 2022; Kamaruddin et al., 2024).

EMERALD's initial implementation of SGF requirements was compliance-driven, but through gradual structural development, most notably the reinstitution of EMERALD's institutional structure, the system became more embedded and progressive. On the other hand, according to Nasir et al. (2021), Shariah governance practices might only be symbolic and not result in significant institutional change if there is no deeper ethical integration, such as through Shariah-based principles.

This trend of change is somewhat consistent with the findings of Nasir et al. (2021), who discovered that institutional pressures rather than internalised ethical or religious principles were the main reason Malaysian firms adopted environmental sustainability practices. Despite the existence of formal structures, their research indicated that these changes were mainly symbolic and did not result in progressive, embedded practices. A more successful type of progressive change was demonstrated by EMERALD's institutionalisations, which were implemented gradually and internally. Examples of these improvements include the creation of a Secretariat to the Shariah Committee and the elucidation of roles through a Charter. The Charter for the Shariah Committee clarified the committee's roles and duties (Zainal Abidin et al., 2021), while the Secretariat to the Shariah Committee aimed to provide the committee with the resources necessary for optimal task performance in ensuring Shariah compliance.

The study by Ali and Ifraq (2024), which looked at the formal and progressive evolution of the Shariah governance framework in Pakistan, can also be viewed from a comparative standpoint. The regulatory framework in Pakistan has developed gradually, formalising governance roles at the institutional and regulatory levels, much like the case study conducted by EMERALD. A two-tiered model that includes institutional Shariah Boards within Islamic banks and a Central Shariah Board at the State Bank of Pakistan serves as the framework's foundation. Through the independence of the Shariah Committee within EMERALD and the autonomy of the Shariah Advisory Council under Bank Negara

Malaysia, EMERALD also presents a two-tiered Shariah governance structure. EMERALD's strategy, on the other hand, was noticeably more proactive and was distinguished by internal restructuring and progressive adaptation that struck a balance between institutional discretion and regulatory requirements. The case of Pakistan also shows that formal documentation, training, and standardisation are necessary for Shariah governance to be effective, in addition to compliance. Formal, progressive, and evolutionary changes are proving crucial for attaining sustainable governance and regulatory alignment in Islamic banking, as evidenced by EMERALD's efforts to gradually institutionalise new requirements, clarify reporting lines, and formalise its internal procedures and frameworks.

Given its foresight and goal of improving the institution, progressive change may prove more successful than regressive change. Since formal change complies with institutional rules and regulations, it may be more successful than informal change. The effectiveness of the Shariah Committee has increased because of EMERALD's modifications to Shariah governance procedures. Additionally, the creation of Shariah control functions made it easier for the committee to recognise and control risks of Shariah non-compliance. The creation of a Charter outlines the roles and responsibilities of the Shariah Committee (Noor and Ismail, 2021), while the modification of its requirements guarantees that it is made up of knowledgeable and experienced members. To help the Shariah Committee carry out its duties, a Secretariat was also established. Shifts in the institutional structure involving the development of Shariah control functions improved the reporting line, disclosure, and transparency in EMERALD.

In conclusion, EMERALD's experience shows how successful institutionalisation can result from formal, progressive, and evolutionary changes that are started by regulation and backed by internal restructuring. In contrast to Nasir et al.'s (2021) study of primarily symbolic implementations, EMERALD's reforms were put into practice. Flexibility and

operational independence were made possible by its two-tiered governance structure, which was implemented through BNM's Shariah Advisory Council and its own internal Shariah Committee. Deliberate internal alignment with external expectations characterised EMERALD's evolution in contrast to Pakistan's more centralised approach. These differences demonstrate that EMERALD's transformation was operationally embedded and compliant with regulations, improving the institution's efficacy and long-term viability as a Shariah-compliant institution.

6.3.4 Institutional Change from NIS and NIE Lenses

Certain changes in EMERALD can be further explained by the NIS and NIE concepts of institutional theory, in addition to the OIE concept of institutional theory that was used to explain the institutionalisation of Shariah governance practices (Alam and Miah, 2024; Alam et al., 2021). Institutional theory describes how an institution grows into a dynamic entity with each institutional member adhering to sound Shariah governance practices. The function of Shariah governance and the institutionalisation of Shariah governance practices in IFIs are also explained by NIS (Alam et al., 2021). According to the NIS, institutionalisation is a way to improve institutional legitimacy and control the social behaviour and culture of institutional members.

Padmasiri and Ajward (2023) support this view by arguing that, as seen in Sri Lanka, the three institutional isomorphic pressures coercive, mimetic, and normative have a positive impact on institutionalisation in public institutions. These isomorphic forces also influenced the development of Shariah governance in EMERALD.

The strong Shariah governance structure of EMERALD successfully illustrates its accountability for transparency, disclosure, and compliance, which may draw in more clients seeking Shariah-compliant financial services and products. Additionally, the institution can continue to be legitimate both domestically and internationally in the Islamic finance sector. For EMERALD and its institutional members to comply with Islamic principles, including Shariah governance, Shariah governance practices must be institutionalised (Ayedh et al., 2021).

Shariah governance is defined by IFSB-10 as a set of institutional and institutional arrangements that oversee Shariah compliance in Islamic banks (Hassan, 2012). Public trust in the company's goals, management, and operations is increased when holistic and robust Shariah governance practices are institutionalised (Masruki et al., 2020). In Malaysian Islamic banks, such as EMERALD, these practices eventually resulted in the institutionalisation of governance structures, policies, and procedures to support end-to-end Shariah compliance (Hasan, 2012).

Malaysia is a pioneer in regulating its Islamic finance sector, especially concerning Shariah governance practices, after a thorough evaluation of Shariah governance practices in regional Islamic banks (Naysary et al., 2020). Interestingly, using the institutional theory in Shariah governance practices (Karbhari et al., 2020) gives EMERALD precise rules, methods, and processes to carry out, oversee, and manage its social, religious, and accountability-related responsibilities.

After conducting a thorough literature review, Karbhari et al. (2020) argued that the institutional theory was relevant in explaining how Shariah governance practices were

institutionalised in Islamic banks. For EMERALD to maintain adherence to Islamic principles and boost public trust in the sector, this relevance is essential. Following the development of Shariah governance practices from the early 1980s to 2019, EMERALD, an Islamic bank based in Malaysia, is not exempt from institutionalisation. The institutionalisation of EMERALD coincided with regulatory developments that reflect a changing Shariah governance landscape, including the BNM-issued GPS 1 (2004), SGF (2010), IFSA (2013), and SGPD (2019) (Ali and Ifraq, 2024).

The formal structures and procedures that are valued in the social and cultural environment of the institution are followed in the institutionalisation of Shariah governance practices in EMERALD within the framework of NIS. BNM has the authority to guarantee that all Islamic banks, including EMERALD, transition to Shariah governance practices since it is the regulatory body that renders decisions on Shariah governance for all Malaysian Islamic banks. The external and internal forces in an institution determine whether isomorphism is normative, mimetic, or coercive.

These isomorphic pressures were also crucial in the Sri Lankan case examined by Padmasiri and Ajward (2023), but four conformity techniques, personal, procedural, categorical, and structural, reduced their impact on the institutionalisation of management accounting practices. Even though EMERALD's case did not specifically document this, routine conformance is visible in the way the company institutionalised standardised frameworks and compliance mechanisms, particularly in response to IFSA 2013 and SGPD 2019.

Coercive isomorphism through regulatory enforcement is evident in the EMERALD case. According to the Chief Shariah Division,

"When BNM issued IFSA 2013, the requirements to follow SGF 2010 became mandatory."

Without hesitation, EMERALD adapted to the changes, which were progressively institutionalised and normalised. Affirmed by the General Manager,

"Even though we already practised the Shariah governance, we had no problem when BNM wanted us to change the structure and disclosed it in the report."

When BNM released IFSA 2013, the requirements to adhere to SGF 2010 became mandatory. Despite periodic changes up to SGPD 2019, EMERALD has no qualms about adopting Shariah governance practices after eight years of adhering to SGF 2010. Through institutionalisation, these practices were progressively accepted as normal.

In keeping with this, EMERALD was ready to adapt to the changes and comply with SGPD 2019 to promote Shariah compliance, efficient Shariah governance, and sustainable and worldwide growth in the Islamic finance sector. This institution has voluntarily complied with SGF 2010, IFSA 2013, and SGPD 2019 over the years, as demonstrated by the interviews conducted with all nine Shariah officers in EMERALD (see Chapter 5), the review of documents from EMERALD's website, and the analysis of annual reports from 2010 to 2021. The Chief Shariah Division concurred with the General Manager's statement, confirming that EMERALD had practised mimetic isomorphism in Shariah governance during the early formation of EMERALD. The General Manager further said,

"There are several international Islamic Setting Bodies like AAOIFI, IFSB, which have issued governance standards."

Mimetic isomorphism is a term used in institutional theory to describe how institutions adopt the practices of other institutions in their field to gain legitimacy or to support their beliefs about other institutions' success. When EMERALD complied with the BNM-issued GPS 1 2004 by appointing a Shariah Committee to provide independent guidance and advice on Shariah-related issues, mimetic isomorphism was noted concerning the Shariah governance practices in EMERALD.

As the enhanced NIS model emphasises, local limitations like resource availability, technical capability, or policy gaps frequently moderated mimetic behaviour in the Sri Lankan PIs. Like the structural and individual conformity mechanisms suggested by Padmasiri and Ajward (2023), EMERALD's internal ability to embrace and imitate best practices seems to have been supported by sufficient training and awareness.

In response to BNM's release of SGF 2010, EMERALD revised its internally developed Shariah governance framework to ensure alignment with the regulatory requirements. This is a prime example of how EMERALD emulates BNM procedures to appear legitimate and present a positive institutional image. BNM's SGPD 2019, which offers a thorough set of guidelines to create and run a strong governance practice, was later adopted by EMERALD. The institution's adherence to SGPD 2019 demonstrated its dedication to Shariah compliance and readiness to adhere to best practices in the industry to establish a solid reputation and draw in more new clients.

NIE describes an institution's economic aspects. Arguably, institutions are formed to reduce uncertainty and transaction costs. The evolution of Shariah governance and the institutionalisation of Shariah governance practices in EMERALD were covered in detail by NIE in this study. It is possible that the only reason to institutionalise Shariah governance practices is to reduce transaction costs and ambiguities. Although the development of EMERALD seems to reflect the direct effects of isomorphic pressures, there are clear signs of procedural and individual conformance, especially in internal certification and training procedures. For instance, the General Manager responded as follows when questioned about implementation costs,

“We have the plan, which will incur more cost to EMERALD. However, the management is already aware of this situation and has no issue... we must send the existing Shariah officers for short courses, seminars, conferences and training.”

He further explained,

“So that they could upgrade their knowledge and information on the new framework and policy. The new officers, including the Shariah Committee, will also need to go for short courses, seminars, conferences and training to add more knowledge on Shariah matters. In such a way, they are competent in handling Shariah non-compliant issues. All these will be done from time to time.”

In the case of EMERALD, competent Shariah officers within the Shariah control functions play a crucial role in identifying and mitigating uncertainties related to Shariah compliance through strategic and well-planned interventions, although such efforts often entail high costs. The General Manager brought up the significant expenses associated with putting EMERALD's Shariah governance reforms into effect when asked about their effects. The viewpoint of NIE, which emphasises transaction cost reduction to improve institutional predictability and institutional trust highlights the financial sacrifices or costs that an institution must inevitably make to comply with regulations.

According to NIE, which describes the economic justification for institutionalisation, EMERALD's compliance approach takes cost-benefit trade-offs into account. Higher transaction costs were incurred by the bank in short courses, seminars, conferences, and training, but they were justified as essential investments to lower the risk of Shariah non-compliance. According to the General Manager,

“All these will be done from time to time.”

Although NIE does a good job of capturing EMERALD's attempts to improve institutional control and lower uncertainty, its exclusive use highlights some drawbacks. It ignores the institutional and regulatory environment in which these practices are embedded. Hence, this aspect is better viewed through the lens of NIS.

However, the sole reliance on NIE ignores institutional legitimacy and compliance adaptation, which are topics covered in greater detail under NIS, as was the case in Sri Lanka. According to Padmasiri and Ajward (2023), NIE frequently ignores social norms and external forces, making it an inadequate framework on its own. This claim is amply supported in the context of EMERALD.

EMERALD introduced measures to strengthen Shariah governance practices by regulating and monitoring the conduct of its Shariah officers. These efforts led to increased transaction costs, aimed at mitigating the risk of Shariah non-compliance. Considering the financial implications, it is necessary to reconsider the decoupling of NIE from the institutionalisation of Shariah governance practices in EMERALD. Notably, NIE cannot be used to support the institutionalisation of Shariah governance practices in EMERALD due to its inconsistency with NIS and OIE. In the meantime, EMERALD as an institution strengthened the institutionalisation of Shariah governance practices by loosely coupling

NIS with OIE. Loosely coupling NIS with OIE enables EMERALD to balance external regulatory expectations with internal adaptation, nurturing effective and sustained institutionalisation of Shariah governance practices.

The EMERALD case shows that the loose coupling of OIE and NIS provides a better explanation for the institutionalization of Shariah governance than does NIE alone. Although NIE emphasises the financial justification for raising transaction costs to lower the risks of Shariah non-compliance, it ignores the legitimacy, conformity, and internal adaptation that are crucial to EMERALD's transformation. This result is consistent with the study of Sri Lankan public institutions by Padmasiri and Ajward (2023), which demonstrates how internal mechanisms, like structural and procedural alignment, influence institutionalisation through external regulatory forces. When taken as a whole, these examples support the idea that internal practices and external forces interact dynamically to produce institutional change. These show how the NIS and NIE lenses, each of which has unique but complementary explanatory value, provide the best understanding of institutional change in EMERALD.

6.3.5 Encoding the Shariah Governance Practice

A key component of Shariah governance practices in Islamic banks is the Secretariat to the Shariah Committee, which provides the committee with complete support for Shariah principles through organised correspondence, paperwork, and administrative tasks. After the BNM released SGPD 2019, IFIs were required to establish a Secretariat to the Shariah Committee. The Secretariat oversees facilitating communication between Shariah Committees and other institutional members to maintain correct documentation and guarantee Shariah compliance, according to SGPD 2019.

Encoding, according to Burns and Scapens' (2000) framework, is the phase at which new norms and practices are formally established and documented. This is in line with the Old Institutional Economics (OIE) viewpoint, which sees encoding as a pivotal point at which external pressures, like regulatory mandates, are converted into official institutional procedures that could eventually influence long-term conduct and institutional standards. For Islamic banks, it is crucial to institutionalise the Shariah governance practices to make sure the institution consistently follows the Shariah principle in the institution's rules and routine. This encoding process in EMERALD entailed converting the SGPD 2019 requirement for a Secretariat into a particular institutional function. As the Chief Shariah Division stated,

"As the Chief Shariah, I am also responsible for assisting the Shariah Committee in Shariah matters."

From its early formation, EMERALD has been practising Shariah governance. Its self-regulated framework served as the foundation for the structure, which was not formally revealed in the institutional structure of EMERALD. The implementation of SGF 2010 and SGPD 2019 mandated that EMERALD incorporate these practices into its documented governance framework (guidelines and procedures) and formally reflect them. As the General Manager clarified,

"We have already practised the Shariah audit, Shariah review, Shariah research, and Shariah risk management earlier, since the formation. We do have our self-regulated framework during that time it is just that we do not display it in our institutional structure."

This statement emphasises that EMERALD had already put important Shariah governance functions into its self-regulated framework before formal regulatory requirements were introduced. However, these practices remained informally embedded and were not explicitly reflected in the formal institutional structure, indicating an early stage of internally driven governance evolution rather than externally enforced compliance.

This change is an example of what Burns and Scapens (2000) refer to as the "formalisation of rules", which is a necessary step before institutionalisation occurs. This formalisation of Shariah governance roles, such as the secretariat to the Shariah Committee and other Shariah governance practices under Shariah control functions in EMERALD was not merely about adherence to regulations but was fundamentally rooted in the need to safeguard Shariah principles across all operations. From the perspective of OIE, the act of encoding new rules issued by BNM is not just a regulatory process. Instead, it is an institutionalisation of Shariah governance practices shaped by existing routines of Shariah officers to ensure Shariah compliance. For instance, the Shariah policy manual (SPM) was also strengthened in each Shariah control function by providing Shariah officers with the opportunity to contribute ideas and implement them on their terms. As highlighted by the Head of Shariah Compliance,

“We can perform the task given to us with the help of this support working group which helps us to come up with more ideas and suggestions.”

In this vein, encoding the ideas and suggestions from the Shariah officers supports the view that risk-based Shariah compliance can be more effectively implemented while indirectly promoting Shariah awareness among EMERALD members.

The encoding of governance support roles guarantees clarity in institutional function and anchors administrative responsibilities within the IFI's institutional design, according to Ammar et al. (2025). Their research highlights the importance of formal job scopes and documentation in fostering operational consistency and transparency.

Furthermore, Busco et al. (2008) assert that encoding is not a top-down mechanism but an extensive institutional commitment, where formal internal structures and rules, such as the Secretariat to the Shariah Committee, support governance practices and tolerate

mechanisms to be established within institutions. In EMERALD, the institutional commitment was crucial for embedding Shariah-compliant behaviours among the Shariah officers, not just a formal requirement. Thus, encoding becomes an essential means of incorporating Shariah principles into day-to-day activities.

The Secretariat to the Shariah Committee's practical performance of its responsibilities, including recording Shariah rulings and assisting Shariah officers, is referred to as the enacting stage. This stage supports the idea put forth by Ammar et al. (2025) that the foundation of effective Shariah governance is the enactment of encoded rules through organised daily interaction. Similarly, Burns and Scapens (2000) define enacting as the stage where routines are established because of rules influencing actual behaviour. According to the OIE lens, this is a dynamic process in which institutional culture (routines) and intended practices (rules) interact.

These methods can be continuously improved through reproduction. The Chief Shariah Division clarified,

"We manage appointment and reappointment, allowances, claims, and training for the Shariah Committee, other than Shariah matters."

This demonstrates how the Shariah Division continuously replicates and improves administrative procedures to bolster its secretariat function. By facilitating clearer role demarcation and improving the institutional efficacy of Shariah governance practices, such reproduction has over time helped to create a more organised and encouraging environment for the Shariah Committee.

This is consistent with Busco et al., (2008), who contend that newly encoded routines must be supported by constant reinforcement mechanisms and implementation.

According to their research, regular reproduction guarantees that encoded practices continue to be applicable and adaptable to changes in institutions and regulations. Within EMERALD, this reproduction process played a key role in maintaining consistent Shariah compliance amidst institutional change. According to Burns and Scapens' framework, reproduction is the process by which routines are repeated and may eventually be decoupled from the rules that originally governed them, evolving because of institutional norms and habits.

When the Secretariat is completely integrated into EMERALD's operations, institutionalisation is finally accomplished. As said by the Chief Shariah Division,

"Everyone in the bank already knows our roles and duties."

This statement proves how the Shariah Division's operations have been successfully institutionalised as a Secretariat to the Shariah Committee through broad acceptance and recognition throughout EMERALD.

Ammar et al., (2025) dubbed this process of encoded support mechanisms, such as the Secretariat, becoming non-negotiable aspects of the institutional fabric as "governance normalisation". Compared to Busco et al. (2008), described how formal performance management systems, once enacted and repeatedly used (reproduced), become embedded within institutional routines and culture, reflecting how Shariah governance practices at EMERALD gradually evolved into institutional norms. In a similar vein, Burns and Scapens (2000) define institutionalisation as the moment when routines are accepted as normal and integrated into the institution's deeper institutional norms, indicating that change has effectively progressed from rule to routine to institution, which is a crucial realisation of OIE.

Reflecting the Burns and Scapens (2000) framework based on OIE, the EMERALD case illustrates how institutionalisation of Shariah governance practices occurs through the encoding, enactment, reproduction, and institutionalisation of roles, such as the Secretariat to the Shariah Committee. The framework and the EMERALD study both demonstrate how institutional social norms and evolution drive change. As formal regulations interact with ingrained institutional routines and values, this transition happens gradually rather than all at once. Further evidence that consistent practice and the formalisation of ethical roles enhance institutional development comes from Ammar et al. (2025) and Busco et al. (2008). Their results demonstrate how structural embedding and repeated use give governance mechanisms legitimacy over time. It was not just about obeying regulations set by BNM, but it was also an important strategy to institutionalise the Shariah principle as part of EMERALD's cultural and operational norms. This coined the appropriate encoded regulatory compliance can develop into a long-lasting institutional practice that eventually becomes an essential component of the institution's corporate image and culture.

6.3.6 Structured Transformation of Rules and Routines

The structured transformation of rules and routines within EMERALD reflects an institutionalisation of informal governance practices into formalised procedures consistent with BNM's regulatory expectations. This process was represented by the creation of the Shariah Committee Charter under SGPD 2019, a significant regulatory advancement aimed at formalising governance frameworks within Islamic Financial Institutions (IFIs).

EMERALD's transformation was evolutionary rather than revolutionary. As confirmed by the Shariah Division Chief,

“Before this, we used the guideline from GPS 1 2004 and later SGF 2010 for our Shariah Committee.”

The development of the Shariah Committee Charter marked a shift from loosely structured practice guidelines to a codified document. As noted by the Chief Shariah Division,

“We already have the Shariah Committee practice guidelines, and now we put it as a Charter.”

While the BOD Charter oversees the institution’s strategic direction, risk management, and overall governance, the Shariah Committee Charter focuses specifically on ensuring that all operations, products, and policies adhere to Shariah principles (Asif and Akhlaq, 2024). These two Charters serve complementary but distinct roles, reinforcing transparency, accountability, and functional clarity within EMERALD (Zainal Abidin et al., 2021; Laldin and Furqani, 2018).

Following SGPD 2019, IFIs were mandated to produce a comprehensive Shariah Committee Charter that clearly outlined the committee’s roles, responsibilities, authority, and operating procedures (Fatmawati et al., 2022). Once approved by the Board of Directors, the Charter became a legally binding document, marking the formal transition from GPS 1 2004 to SGF 2010 and toward more structured and institutionalised governance practices. As mentioned by the Chief Shariah Division,

“We prepare Charter to ensure Shariah Committee having the autonomy on Shariah matters.”

This action plan was optimised by emphasising the role of the Shariah Committee with the terms of reference in the Shariah Committee Charter as a guidance manual to the committee

(Ab Ghani et al., 2024) and the establishment of a special Secretariat to assist the Shariah Committee in discharging its role and duties (Zainal Abidin et al., 2021) in EMERALD. The Charter is actively used, reviewed, and updated to remain aligned with BNM's evolving regulatory requirements. As the Chief Shariah Division stated,

“We regularly update the Charter to suit our appointed Shariah Committee as well as BNM requirements.”

Ammar et al. (2025) reinforce this view by asserting that codified governance documents such as Charters are essential tools in shaping institutional practices. Drawing on Burns and Scapens (2000), they explain how routines are transformed into formalised structures that become ingrained in daily operations over time, ensuring the sustainability of institutional change.

In supporting the implementation and continuity of Shariah Committee's practices, EMERALD also established a dedicated Secretariat to manage Shariah Committee activities. As stated by the Chief Shariah Division,

“We have the Secretariat to manage the Shariah Committee's needs and requirements, including the meeting arrangement.”

This Secretariat to the Shariah Committee plays a crucial support role and signifies the final phase of institutionalisation. Ammar et al. (2025) describe this as "institutional sanctity," where regulatory compliance is no longer questioned but fully embedded within the institution.

Concurrently with documentation, EMERALD also undertook structural improvements. Before SGPD 2019, the Secretariat to the Shariah Committee operated under the Shariah research function. However, following SGPD 2019, the control functions were restructured, as explained by the Chief Shariah Division,

“In the past, the Secretariat was under the Shariah research function. But later following SGPD 2019, the control functions were restructured and now we have a separate Shariah Division to focus on Secretariat to the Shariah Committee roles.”

This reinstitution reflected an institutionalisation of practices, where roles and responsibilities were more clearly delineated. While core duties remained unchanged, EMERALD formalised roles and reporting lines to improve governance efficiency, reduce conflicts of interest, and embed accountability into routine operations.

While EMERALD's transformation was structured and practical, not all institutional reforms achieve the same institutionalisation of practices. Siti Nabiha and Scapens (2005) offer a contrasting case study of a Malaysian public university that introduced budgeting reforms in response to performance measurement requirements. These reforms, however, were layered onto existing informal routines without replacing them resulting in symbolic compliance or loose coupling.

In contrast to EMERALD, the reforms in the university studied by Siti Nabiha and Scapens were not institutionally supported by structural change or formalised practices. The budgeting rules were adopted in form but not routinised. This case illustrates that without structural and procedural reinforcement, formal rules may fail to be institutionalised, remaining superficial and disconnected from operational realities.

Overall, the EMERALD case and the review by Ammar et al. (2025) collectively underscore that institutionalisation is a gradual, socially embedded process. Ammar et al. provide a theoretical lens through Burns and Scapens' (2000) framework, while EMERALD offers a real-world narrative rooted in Shariah governance evolution. Together, they demonstrate how structured governance tools such as the Shariah Committee Charter and the Secretariat to the Shariah Committee are not just compliance mechanisms, but pivotal enablers of deep institutional change. It highlights how structured governance instruments can embed regulatory norms into institutional operations, ensuring long-term sustainability and legitimacy.

6.4 INSTITUTIONALISATION OF SHARIAH GOVERNANCE PRACTICES IN SHARIAH CONTROL FUNCTIONS AT EMERALD

The previous section explored how Shariah governance practices in EMERALD gradually developed over time through an evolutionary process. These changes were shaped by both regulatory expectations and the institution's efforts to adapt. Institutionalisation is not just about introducing new structures or complying with guidelines. It is also involved with "how things are done" in daily operations. To understand how these practices take root in daily operations, the next section looks at how rules become routinised within EMERALD. This involves seeing how each of the Shariah control functions puts formal policies into action, embedding them into the regular flow of work until they are accepted by everyone in the institution.

Routinisation is the process of creating and encoding new forms of knowledge. The routinisation of rules within EMERALD's Shariah governance functions can be

meaningfully examined through the lens of Burns and Scapens' (2000) framework: encode, enact, reproduce, and institutionalise. In the encoding stage, formal rules and expectations are developed and clearly articulated to guide the actions of Shariah control functions. At EMERALD, the Shariah risk management function (SRMF) encoded its mandate by aiming to integrate Shariah non-compliance risks within conventional risk management systems. Meanwhile, the Shariah compliance function (SCF) focused on identifying, assessing, and monitoring both existing and new Shariah compliance matters. Similarly, the Shariah audit function (SAF) contributed to the encoding process by designing robust methodologies for assessing the risk profile of audit areas. These codified responsibilities form the substance for structured implementation in the following stages.

The enactment stage involves the application of the encoded rules in practice. Here, EMERALD demonstrates how each Shariah control function operationalises its respective role. The SRMF translates its policies into action by identifying potential Shariah non-compliance risk exposures and actively engaging with emerging risks. The SRF enacts its mandate by producing regular compliance reports, thereby offering timely insights into Shariah governance concerns. The SAF supports enactment by developing comprehensive and practical Shariah audit plans that guide the institution's internal audit processes. These actions reflect the practical recognition of rules and knowledge for daily practice.

The third stage, reproduction, reflects the normalisation of these practices as they become routine and integrated into the institution's self-framework. Within EMERALD, the SRMF supports reproduction by continuously assessing and measuring the potential impact of Shariah non-compliance, reinforcing the importance of proactive risk management. The SRF contributes by disseminating updates on regulatory developments, ensuring that Shariah compliance officers remain informed and responsive to external forces. The SAF institutionalises consistency in audit procedures by issuing standardised guidance on audit assessments and thereby embedding uniform practices across the

function. Through this continuous application and reinforcement, Shariah governance practices begin to shape the daily routines of institutional members.

Finally, the institutionalisation phase is marked by the full integration of rules into the institutional norms, culture and behaviour. At EMERALD, the SRMF institutionalises its role by developing formal risk mitigation measures that align with both regulatory guidance and the internal governance framework. The SRF reinforces institutionalisation by ensuring that Shariah officers receive ongoing training and support, enhancing their ability to uphold Shariah compliance. The SAF completes this process by consistently communicating audit findings, recommending rectification measures, and following up on the implementation of action plans. These efforts collectively reflect how routinised practices evolve into persistent norms, embedded in EMERALD's Shariah governance framework.

The routinisation of rules is further elaborated in the next section, drawing on empirical findings under Theme 1: Shariah Audit Function, Theme 2: Shariah Compliance Function, and Theme 3: Shariah Risk Management Function to illustrate how these practices have become embedded across EMERALD's Shariah governance framework.

6.5 ROUTINISATION OF RULES IN EMERALD

The routinisation of rules as a key mechanism in the institutionalisation of Shariah governance practices in EMERALD is the exclusive focus of this section. The phases of encoding, enacting, reproduction, and institutionalisation, in particular, Burns and Scapens' (2000) framework, are used as a guide for this analysis, which shows how externally mandated Shariah governance requirements have been embedded as internal institutional

routines. As Table 4.9 summarises, triangulated evidence from internal policies, regulatory documents, and interview data demonstrates both internal coherence and data saturation, confirming that these rules are actively enacted and reproduced in day-to-day operations rather than being passively adopted.

The institutionalisation of Shariah governance practices and the routinisation of regulations in Islamic banks were investigated through a review of documents. In order to pinpoint important themes and answer the following research questions, this study mainly examined SGPD 2019 with reference to Shariah control functions: (1) Why are Shariah governance practices institutionalised in Islamic banks? (2) How do Shariah governance practices become institutionalised? (3) What controls are in place to address the problems and difficulties associated with institutionalisation in Islamic banks?

The findings from the cross-sectional content analysis of all three control functions were compiled in the analysis's last exploratory step. In line with Burns and Scapens' (2000) framework of encoding, enacting, reproduction, and institutionalisation within the OIE concept, the results were coded and categorised under each Shariah control function. This results summary also includes insights from NIS and NIE to provide a variety of theoretical viewpoints on the process of institutionalisation, especially about comprehending the forces that influence the routinisation of rules.

Through systematic assessments and evaluations, the Shariah audit function is crucial to maintaining adherence to Shariah principles. The way audit policies are implemented through scheduled reviews after being encoded in internal and regulatory frameworks demonstrates the routinisation of rules and results in recurrent patterns of behaviour. The process has become regularised and predictable, indicating embeddedness, as indicated in Table 4.9 and supported by interview data. Formalising audit policies and

procedures in internal governance frameworks and regulatory guidelines is the process of encoding. When auditors carry out routine evaluations and assessments to guarantee compliance with these set regulations, enactment takes place. The institution's strong compliance culture is strengthened because of audit findings and recommendations, which over time help to replicate governance practices. This process reflects Burns and Scapens' (2000) concept of enacting and reproducing rules until they become part of institutional routines. In EMERALD, this was clearly described by the Shariah Audit Officer 1 who remarked,

“Before this, we did ad hoc audits. But now, we follow the cycle. Every year we do a Shariah audit for every department.”

This demonstrates how the consistent application of formal audit procedures has developed into a structured and recognised standard. The Shariah audit function is eventually institutionalised as it is accepted and integrated into the governance structure. According to NIS, the standardisation and consequently the routinisation of the audit function are driven by normative expectations from industry standards and coercive pressures from regulatory bodies. By lowering the risk of non-compliance and promoting confidence in Islamic financial institutions, the audit function lowers transaction costs from an NIE standpoint.

The purpose of the Shariah risk management function is to recognise, evaluate, and mitigate possible risks associated with non-compliance with Shariah principles. Here, the systematic use of risk assessment tools and the frequent updating of risk profiles serve as examples of the routinisation of rules. These practices are consistently followed throughout reporting cycles, as shown in Table 4.9. The creation of risk assessment frameworks and methodologies, which lay the groundwork for risk management, is part of the encoding phase. These tactics are put into practice by putting in place compliance checks and monitoring systems that actively reduce risks. The reproduction of successful risk

management policies is ensured by ongoing revisions and adaptations to risk management procedures based on audit findings and regulatory changes.

As theorised by Burns and Scapens (2000), reproduction occurs when routines are no longer questioned but simply performed as part of regular practice. A Shariah Risk Management Officer 2 at EMERALD described this transition succinctly,

“We identify Shariah risk using a tool, and every quarter, we update the risk profile.”

Shariah risk management has been standardised through embedded monitoring systems and cyclical assessments. It is institutionalised when it is incorporated into the bank's larger risk governance framework. Mimetic isomorphism occurs when banks improve their risk governance by implementing best practices from top financial institutions, according to the NIS perspective. According to NIE, good risk management techniques lower agency costs, lessen uncertainty and enhance operational and financial stability.

All banking operations are guaranteed to comply with established Shariah principles by the Shariah compliance function. The implementation of SOPs and checklists across departments, which were created in response to SGF 2010 and improved under SGPD 2019, is an example of the routinisation of rules. As demonstrated in Table 4.3 and verified in interviews, these compliance practices are now a recognised aspect of daily operations rather than being reactive. The internal policies and regulatory standards that specify compliance frameworks are clear examples of encoding. Daily operational practices, such as monitoring and reporting systems that guarantee continued adherence, are used to implement these policies. Periodic evaluations and policy revisions replicate the compliance function, strengthening governance practices' sustainability. According to the framework, institutionalisation is marked by the consistent reproduction of encoded rules across operational contexts. This is evident in the compliance function at EMERALD, the Head of Compliance Officer explained,

“After SGPD 2019, we aligned our SOPs accordingly. It becomes our reference now.”

This illustrates how operational procedures have incorporated regulatory standards. As compliance procedures become ingrained in the institution's operational culture, they institutionalise and guarantee constant adherence to Shariah principles. Compliance adherence is further reinforced under the NIS framework by normative pressures from industry associations and professional networks. From an NIE standpoint, keeping up a strong compliance function ensures the long-term viability of Islamic banking operations by reducing legal and reputational risks.

The Shariah Secretariat's inclusion and the Shariah Committee Charter's introduction under SGPD 2019 are two more examples of how routinisation of rules is at the governance level. Even though these mechanisms were first implemented as structural reforms, they are now a regular part of governance. It is now standard procedure for the Secretariat to prepare papers, handle submissions, and follow up with the Shariah Committee. The overall stability and legitimacy of Shariah governance are supported by this procedural consistency, which illustrates how even governance-level functions have moved from ad hoc arrangements to institutionalised routines.

The results of the analysis highlight that, as conceptualised by Burns and Scapens (2000), the institutionalisation of Shariah governance practices within Islamic banks adheres to a systematic process of encoding, enacting, routinisation of rules, and institutionalisation. NIS insights, however, emphasise how external forces such as normative, mimetic, and regulatory influences shape governance practices. NIE, on the other hand, highlights efficiency, risk mitigation, and transaction cost reduction in its explanation of the economic justification for institutionalisation. In Islamic financial institutions, risk management and Shariah compliance are sustained through the iterative

reinforcement of governance mechanisms through routine rule-following behaviour. Another control mechanism that helps to institutionalise Shariah governance practices is the addition of the Secretariat and Charter as newly introduced tools for the Shariah Committee under SGPD 2019, supporting both revolutionary and evolutionary changes within Shariah governance practices. The next section discusses in detail the analysis result for Theme 1, Theme 2, and Theme 3 based on Burns and Scapens' (2000) framework within the OIE concept.

6.5.1 Theme 1 – Shariah Audit Function

Based on the analysis outcomes, the institutionalisation of Shariah governance practices was identified under the Shariah audit function and involved encoding the Shariah audit methodology. The first activity listed in Table 5.6, which aimed "To assess the risk profile and each auditable area exposure by developing a strong audit methodology", characterises encoding. As outlined in Burns and Scapens' framework, encoding involves the formalisation of rules and routines into institutionalisation processes. As stated by the Head of Shariah Audit Function,

“Once the audit universe is established, a scoring assessment is conducted.”

The encoding involved developing a robust methodology to assess risk profiles and specific auditable areas within EMERALD, thus ensuring an optimal Shariah auditing framework. By embedding these structured methodologies, the institution ensured that Shariah compliance was systematically evaluated and monitored. This signifies a progressive rather than regressive change, as it enhances the effectiveness of Shariah governance practices while formalising institutional practices.

The enacting involved implementing the Shariah audit plan. The description in Table 5.6, "To develop a comprehensive Shariah audit plan for the Shariah audit process", illustrates enacting. According to Burns and Scapens, enacting refers to the application of encoded routines in daily practices. The enacting entailed the execution of a detailed Shariah audit plan, incorporating both specific and ad hoc audit scopes. This included (i) addressing challenges in Shariah non-compliance events, (ii) implementing solutions for independent audit reporting to the Audit Committee, and (iii) executing post-audit planning to ensure effective follow-up on Shariah non-compliance mitigation. As shared by the Shariah Audit Officer 1,

“We need to see the Shariah Committee’s minutes of meeting to determine what needs to be implemented by the audit entity or division. So, this may be one of the challenges.”

The execution of this plan translated institutional rules into practical applications, thereby reinforcing Shariah governance practices within EMERALD. Furthermore, the integration of advanced technology, such as AI-assisted audit tools, played a crucial role in enacting these methodologies, thus optimising the audit's efficiency and accuracy. This embodies evolutionary change as the institution gradually integrates technological advancements to refine auditing processes without disrupting the institution’s environment.

The reproduction involved continuous improvement of the Shariah audit process. The activity in Table 5.6, "To guide on gathering information, auditing procedures, and audit assessment by developing a documented Shariah audit programme", represents reproduction. In line with Burns and Scapens’ framework, reproduction signifies the reinforcement and adaptation of institutional routines over time. This process required the continuous development of Shariah audit programmes, ensuring that evolving regulations and compliance requirements were consistently integrated into the audit framework. The Head of Shariah Audit Function noted that,

“The checking will be done according to the audit programme, but it will not be as detailed as the checking that we do ourselves. The focus is different.”

The Shariah auditors utilised self-regulated audit programmes to independently assess compliance before initiating formal audit assessments. This ensured that the Shariah audit process remained consistent, valid, reliable, and repeatable, thereby fostering a sustainable institutional practice. The Head of Shariah Audit Function further added,

“We always refer to the Shariah Committee paper or minutes of the meeting on what to be implemented next.”

Obtaining a second opinion from Shariah experts contributed to reproduction by refining and validating audit judgements, ensuring adherence to best practices in compliance assessments. The reproduction illustrates formal and informal change as self-regulated programmes allow for flexibility within the structured audit framework.

Institutionalisation involves embedding the Shariah audit process into the institution’s culture. The description in Table 5.6, "To communicate the audit findings, recommendations for rectification measures, and auditee’s responses and action plans to the Board of Directors (BOD) and the Shariah Committee through an audit report", is an institutionalisation. This aligns with Burns and Scapens’ concept of institutionalisation, where routines become embedded and accepted as the norm within an institution. Highlighted by Shariah Audit Officer 2,

“We report to the Chief Internal Audit.”

Communicating audit findings to the Chief Internal Audit ensured that Shariah non-compliance issues were addressed effectively. Over time, this systematic communication process strengthened the perception and importance of Shariah auditing, leading to its

acceptance as an integral governance function within EMERALD. The institutionalisation was further reinforced by integrating a self-regulated audit programme, leveraging technology, and obtaining second opinions, ensuring that best practices became ingrained within Shariah governance processes. This reflects a revolutionary change in Shariah governance practices as institutional norms (routines) shift towards a more transparent and technologically advanced Shariah compliance. Furthermore, audit performance was significantly enhanced by loosely coupling the Shariah audit process with a self-regulated audit programme, advanced technology, and second-opinion mechanisms. These refinements contributed to mitigating Shariah non-compliance risks and deterring Shariah potential issues in EMERALD effectively. However, maintaining the independence of the Shariah audit function from other control functions, business units, top management, and the Shariah Committee preserved the integrity of independent Shariah auditors. This reinforced the institutionalisation of Shariah governance practices in EMERALD, ensuring the sustainability of Shariah compliance within the institution.

6.5.2 Theme 2 – Shariah Compliance Function

There is an institutionalisation of Shariah governance practices detected under the Shariah compliance function based on the analysis outcomes. The process involved encoding BNM-regulated Shariah compliance policies and procedures. The description in Table 5.6, “To identify, assess and monitor existing and new Shariah compliance by Shariah compliance officer”, serves as an illustration of encoding. This process involved identifying the Shariah requirements adhered to by EMERALD, assessing compliance with these requirements, and monitoring adherence on an ongoing basis at the Shariah compliance function. As noted by the Head of Shariah Compliance Function,

“We internalise the BNM requirements. For example, we develop our Shariah review guideline.”

He added,

“The guideline has been constantly evolving as we revise it to keep up with the current situation in the industry.”

This aligns with Burns and Scapens’ framework where encoding is a basis for institutionalising new practices. This represents an evolutionary rather than revolutionary change in Shariah governance practice by adapting to it and modifying the existing routines.

The enacting involved the implementation of Shariah compliance policies and procedures. The description in Table 5.6, “To report regularly on Shariah non-compliance issues and findings to the BOD, Shariah Committee, and senior management”, demonstrates enacting. This process required regular reporting to the management within EMERALD, ensuring that Shariah non-compliance issues or findings were addressed promptly. The Head of Shariah Compliance Function mentioned,

“We need to table the SNC event to the Shariah Committee and the Chief Compliance Officer.”

He further elaborated,

“Previously under SGF 2010, we reported to the Shariah Division; when BNM issued SGPD 2019, there was an institutional restructuring, and we became an independent function and reported directly to the Compliance Division.”

This formal change mechanism enabled effective implementation of Shariah governance practices without any resistance, and Shariah compliance strengthened in EMERALD.

Reproduction concerns the continuous reinforcement of Shariah compliance policies and procedures in EMERALD. The description in Table 5.6, “To inform and provide the latest updates on regulatory requirements, especially Shariah Advisory Council rulings, to the BOD, Shariah Committee, and senior management”, illustrates reproduction. It ensured that the BOD, Shariah Committee, and senior management were well-informed of regulatory changes, particularly those issued by the Shariah Advisory Council of BNM. As highlighted by the Head of Shariah Compliance Function,

“If the issue has a negative impact on bank products, we need to update the board, Shariah Committee, and the management.”

Additionally, he stated,

“We have revised the guideline six times so far.”

The Shariah compliance function in EMERALD employed internal tools and a regularly updated Shariah review guideline, contributing to the updated and continuous reinforcement of Shariah compliance requirements promptly. The institutionalisation of Shariah governance practices in EMERALD becomes routine over time, aligning with Burns and Scapen's framework that change in Shariah governance practices is evolutionary rather than revolutionary.

Institutionalisation involved embedding Shariah compliance into EMERALD's norms, values, and culture. The description in Table 5.6, “To ensure Shariah officers were provided with adequate training and guidance on relevant Shariah requirements”, signifies institutionalisation. As highlighted by the Head of Shariah Compliance Function,

“We also need to make sure that our staff receive adequate training specifically related to Shariah matters.”

He further elaborated,

“We will identify whether staff need training and in what areas when we conduct our reviews. We will suggest the types of training, and the bank will fully support it financially.”

The successful routinisation of these rules in EMERALD was facilitated by structured training and guidance sessions, which helped Shariah officers internalise compliance practices. EMERALD performed surveys to assess Shariah officers’ knowledge gaps and training needs, further embedding compliance into the institution’s culture and reducing Shariah non-compliance risk. This aligns with the final stage in Burns and Scapens’ framework, where practices transition into taken-for-granted norms and define the institution. The adequate and relevant solutions to manage the Shariah non-compliance issues can be viewed as a progressive shift towards a more robust Shariah governance culture, ensuring that Shariah compliance becomes an intrinsic part of the institution rather than a reactive measure.

The processes of encoding, enacting, reproduction, and institutionalisation in the Shariah compliance function are loosely coupled to BNM’s Shariah governance framework and policies. Training initiatives, surveys, and continuous updates on Shariah compliance requirements emphasise Shariah governance practices. Consequently, EMERALD has successfully embedded Shariah compliance into its culture, ensuring alignment with institutional norms and values without resistance. Failure to comply (decoupling) with BNM’s Shariah requirements could lead to Shariah non-compliance issues, resulting in a regressive impact on EMERALD’s top management. Furthermore, as the second line of defence, the Shariah compliance function plays a crucial role in risk management by monitoring and ensuring adherence to Shariah principles, acting as a safeguard between business operations and BNM’s regulation. It provides an independent oversight function that detects and mitigates Shariah non-compliance risks before they escalate, thereby strengthening institutional integrity and accountability towards Shariah compliance within EMERALD.

6.5.3 Theme 3 – Shariah Risk Management Function

Parallel to the analysis results, the institutionalisation of Shariah governance practices was identified under the Shariah risk management function, which involved encoding a Shariah non-compliance risk management framework. The description in Table 5.6, “To integrate between Shariah non-compliance risk with conventional risk management”, illustrates the encoding process as per Burns and Scapens’ framework, aligning with an evolutionary change in integrating conventional and Shariah risk management approaches. It entailed merging the Shariah governance practice with the conventional risk management approach utilised by the Risk Management Division at EMERALD. As mentioned by the Head of Shariah Risk Management Function,

“So, we work together under the same division. The difference is that we are responsible for Shariah non-compliance risk.”

Such integration ensured the effective handling of Shariah non-compliance risks, strengthening Shariah governance practices through progressive change.

The enacting phase was reflected in the implementation of the Shariah non-compliance risk management framework to prevent non-compliance incidents. The description in Table 5.6, “To identify potential Shariah non-compliance risk exposures”, signifies enacting, demonstrating the shift from informal to formal change in governance. This process involved assessing potential Shariah non-compliance risks by systematically reviewing documents related to new products. As shared by Shariah Risk Management Officer 1,

“One of the tools that the team uses is document review. The team reviews internal and external documents to identify potential SNC events.”

By undertaking this identification, management and business units could proactively address potential risks through suitable mitigation strategies, ultimately contributing to a progressive change.

Reproduction was evident in the continuous monitoring of Shariah non-compliance events. The description in Table 5.6, “Assess and measure the potential impact of Shariah non-compliance risk exposures”, serves as an example of this process, reflecting an evolutionary and progressive shift towards structured compliance monitoring. The process encompassed iterative actions to evaluate and quantify the potential consequences of identified Shariah non-compliance risks. The Shariah Risk Management Officer 1 highlighted,

“Once the team has identified a potential SNC event, they conduct a risk control self-assessment (RCSA) to assess the SNC risk from the perspective of gaps.”

The Shariah Risk Management Officer 2 added,

“We conduct monthly monitoring and reporting of rectification progress.”

The application of robust assessment tools, such as RCSA, independent risk investigations, and risk notifications, was instrumental in fostering awareness of potential risks and ensuring timely risk mitigation actions.

Institutionalisation occurred through the systematic embedding of Shariah non-compliance risk deterrence and mitigation practices as standard routines. The description in Table 5.6, “To develop appropriate risk mitigation measures”, highlights institutionalisation, underscoring the movement from informal to formal governance structures. This process involved formulating effective risk mitigation strategies to address

identified Shariah non-compliance risks. As noted by the Head of Shariah Risk Management Function,

“The rectification plan is to rectify the SNC events that are occurring in the bank's current operations.”

The Shariah Risk Management Officer 2 further elaborated,

“If a loss event from SNC has been identified, corrective and preventive actions must be implemented to ensure that the SNC risk that occurred does not happen again.”

Preventive, corrective, and rectification measures were integral to this process, ensuring the long-term sustainability of Shariah governance practices through progressive institutionalisation.

Furthermore, the enacting process was evident in the description from Table 5.6: “To closely monitor both Shariah non-compliance risk exposures and the effectiveness of the risk mitigation measures.” This process involved continuous oversight of identified risks and evaluating the success of mitigation strategies, representing an evolutionary transition towards formalised governance practices. As noted by the Shariah Risk Management Officer 2,

“.... we keep track of the progress every month and then present the progress to the Shariah Committee and the operational committee.”

At this point, the potential Shariah non-compliance risks were meticulously examined to prevent resistance to risk-mitigating measures and ensure the continuous implementation of the Shariah non-compliance risk management framework.

The reproduction process was further demonstrated by the statement in Table 5.6: “To report to the BOD, Shariah Committee, and senior management on the Shariah non-compliance risk exposures.” As mentioned by Shariah Risk Management Officer 1,

“Based on the RCSA results, we will highlight the five major risks to present to the Shariah Committee, top management, and board committee.”

The Head of Shariah Risk Management Function further affirmed,

“Previously, under SGF 2010, our reporting line went directly to the Shariah Committee. However, under SGPD 2019, our reporting line goes directly to the management risk committee.”

This reporting mechanism ensured transparency and accountability by keeping the management informed of risk exposure trends and mitigation actions, thus reinforcing formalised and progressive governance structures.

A loosely coupled Shariah risk management process necessitating integration with conventional risk management, thorough document reviews, implementation of effective assessment tools, and regular refinement of mitigation measures enhanced Shariah non-compliance risk awareness. Consequently, potential Shariah non-compliance risks could be proactively identified, deterred, and mitigated at an early stage, describing an evolutionary change in compliance practices. The decoupling of Shariah risk management processes from undue interference by the top management, Shariah Committee, and other functions facilitated the institutionalisation of Shariah governance practices. It aligns with Burns and Scapens’ framework by ensuring that routines and structures evolve into established institutional norms through a formal and progressive transformation. Based on Theme 3, the development of internal mechanisms such as RCSA tools, independent investigations, and risk notifications contributed to the institutionalisation of Shariah governance practices within the Shariah risk management function at EMERALD.

6.6 SUMMARY

Overall, this chapter discussed the theoretical analysis of the findings on the institutionalisation of Shariah governance practices in EMERALD. The institutional environment, specifically EMERALD's response to the evolution of Shariah governance frameworks issued by BNM, was analysed using the institutional theory concept, which was influenced by Burns and Scapens' (2000) framework focused on OIE. The success in routinising rules demonstrated how Shariah governance practices have been institutionalised in EMERALD. Crucially, over the years, EMERALD has successfully institutionalised robust Shariah governance practices within the Islamic banking industry.

The analysis started by looking at the isomorphic pressures that EMERALD was subject to, such as normative, mimetic, and coercive mechanisms that helped it adjust to regulatory expectations. The chapter then looked at how Shariah governance practices have gradually changed through both formal, progressive changes and loosely coupled arrangements. These changes were influenced not only by BNM's action but also by EMERALD's institutional members' adaptability and dedication to Shariah compliance.

Additionally, other than OIE's perspective, NIS and NIE were also used to further analyse institutional change, and EMERALD's practices were compared with other case studies for more understanding of this study. It has been demonstrated that embedding Shariah compliance into the bank's operational culture is facilitated by the encoding of Shariah governance practices, such as the formalisation of internal controls and documentation procedures. Furthermore, the codification of practices into rules was reflected in the organised transformation of rules and routines, particularly after the Shariah Committee Charter was introduced under SGPD 2019.

The principles of institutional theory can be used to explain how Shariah governance practices were institutionalised in EMERALD. This institutionalisation demonstrates transparency, disclosure responsibility, and compliance accountability. It reduces Shariah non-compliance risk and draws in more clients seeking Shariah-compliant financial services and products. The three main Shariah control functions at EMERALD, the Shariah Audit Function (SAF), Shariah Compliance Function (SCF), and Shariah Risk Management Function (SRMF), were also highlighted in this chapter as examples of the routinisation of rules. The routinisation of rules in EMERALD's Shariah governance practices was highlighted by these functions, which saw the formal rules encoded, enacted, reproduced, and institutionalised by institutional members.

The framework developed by Burns and Scapens (2000) offers a helpful way to understand this institutionalisation process in EMERALD. The study concludes that sustainability, credibility and public trust in Islamic financial institutions (IFIs), especially in Shariah compliance, depend on an understanding of the institutional environment. This chapter has presented an integrated view of both theoretical and empirical dimensions of institutionalisation. It offers valuable insights, which enrich the understanding of this study.

Finally, the last chapter summarised the findings and answered the primary research questions. It also discussed the contributions and limitations of the study, followed by suggestions for future research on the institutionalisation of Shariah governance practices in Malaysian Islamic banks.

CHAPTER SEVEN

CONCLUSION

7.1 INTRODUCTION

This chapter is one of the important parts of the thesis. It provides a summary and insights from the case study findings and offers several recommendations to further enhance the institutionalisation of Shariah governance practices in Malaysian Islamic banks. The purpose of this chapter is to highlight ‘What is great about institutionalisation?’. It elaborates on the theoretical and practical contributions of this study towards policymakers, regulators, IFIs, practitioners, and other stakeholders to enhance and strengthen the Shariah governance practices for the robust growth and sustainability of Islamic banks in IFIs. The chapter also describes some limitations, which might limit the generalisability of the finding to IFIs, including other Islamic banks in Malaysia. The chapter ends by offering possible avenues for future research.

7.2 SUMMARY OF FINDINGS

A strong analytical lens provided by institutional theory helps one to investigate how Shariah governance principles are embedded into operational procedures and systems of Islamic financial institutions. Through different scopes, methodologies, and practical consequences, three relevant studies, Alam and Miah (2024), Nor Aziah and Scapens

(2007), and the institutionalisation case of EMERALD, collectively highlight several paths of institutional change.

Drawing from institutional theory, especially OIE, NIS, and NIE, Alam and Miah (2024) offer a broad conceptual framework to explain how Islamic banks in Muslim-majority countries respond to institutional pressures. Their study reveals the influencing elements in the acceptance of Shariah governance practices as coercive, mimetic, and normative isometric pressures.

In contrast, EMERALD's argument is supported by historical institutional involvement and empirical data. It stands out for being one of the first to adopt and institutionalise Shariah governance practices before the formal issuance of regulatory requirements by BNM and for creating institutional structures that adhere to Shariah by referencing AAOIFI standards and international Islamic practices. As a result, EMERALD is one of the Islamic banks that can perform in the Malaysian market. To further solidify its leadership position, BNM appointed senior personnel to help draft the SGF 2010, demonstrating that EMERALD's influence was not limited to its internal operations.

Furthermore, BNM never objected to EMERALD's practices between GPS 1/2004 and SGPD 2019, demonstrating consistent compliance with regulatory requirements. This contrasts with Nor Aziah and Scapens (2007), who discovered value-based contestation and resistance to the introduction of modern accounting practices in a religious educational setting. Due in large part to internal dedication and early alignment with Shariah principles, EMERALD encountered minimal resistance. While Alam and Miah (2024) highlighted the importance of cost rationalisation and institutional legitimacy.

The Burns and Scapens (2000) model, which provides a detailed understanding of how institutionalisation is embedded through four progressive stages: encoding, enactment, reproduction, and institutionalisation, is used in EMERALD's study. At EMERALD, encoding meant integrating Shariah principles into important governance functions before the implementation of external regulations. As a way, to detect and manage risks associated with Shariah while adhering to enterprise risk management procedures, the Shariah Risk Management (SRM) unit, for example, was embedded into the traditional risk division. The SRM Head stated that to guarantee coordinated control over Shariah non-compliance, they worked in tandem with the larger risk management unit.

During enactment, Shariah governance tools were systematically applied. The SRM team used tools like the Risk Control Self-Assessment (RCSA) to assess risk exposure and mitigation strategies. So as to provide more autonomy in the supervision of Shariah compliance and the application of Shariah governance regulations based on BNM's SGPD 2019, the Shariah compliance function was separated from the Shariah Division. EMERALD also developed specific procedures for reporting Shariah non-compliance risk to the Board and Shariah Committee.

Reproduction took place through the institutionalisation of Shariah governance practices, the Shariah Review Guideline (SRG). The SRG was updated in response to internal input and regulatory requirements, and it was continuously improved. To maintain compliance, SRF activities were reviewed every three months, and the results were communicated to business units. With SGF 2010, the Shariah audit function was formally established. Along with a comprehensive Shariah Audit Program, EMERALD also introduced the Shariah Audit Charter and Manual. This made it possible to evaluate compliance controls methodically and impartially. The move from passive reporting to

strategic auditing complied with SGPD 2019's requirements for thorough Shariah audit planning and follow-up, and audit findings were reported quarterly.

The Shariah research function was equally pivotal during the SGF 2010 period. To facilitate the creation of fatwas, product innovation, and deliberation of new Shariah issues, EMERALD set up a specialised research division. This unit was crucial in conducting ijtihad discussions, developing policy recommendations, and benchmarking practices. It strengthened a culture of Shariah-informed decision-making by institutionalising the role of knowledge production and alignment with Maqasid al-Shariah. However, after SGPD 2019 was implemented, the regulatory policy no longer explicitly defined the Shariah research function. For the purpose of ensuring continuity in advisory support and scholarly engagement within the institution, EMERALD reorganised its internal governance by creating a Shariah Division, which took on the research responsibilities and currently serves as the Secretariat to the Shariah Committee.

There is a clear difference when compared to Nor Aziah and Scapens (2007). Their study looked at how internal resistance and value conflicts caused a religious educational institution to struggle when implementing modern accounting systems. Institutional members perceived change as being imposed externally and tended to resist. In contrast, EMERALD encountered little opposition. Its internal culture, which had already adopted Shariah principles, made it easier for regulatory changes to be accepted. Institutional members welcomed and operationalised the reforms following their institutional objectives rather than opposing them, particularly within Shariah control functions. This comparison demonstrates how institutional change can be facilitated without contestation when internal values and regulatory intent are in alignment.

Conceptual synthesis is used by Alam and Miah (2024) and is appropriate for theoretical generalisation. Their analysis aids in the explanation of how Islamic banks react to normative, coercive, and mimetic institutional pressures to maintain legitimacy. On the other hand, EMERALD's study employs a qualitative, interpretive methodology that includes operational analysis, policy document reviews, and staff interviews. This makes it possible to comprehend the institutionalisation of Shariah governance in a richly contextualised manner. By demonstrating how change occurs in real-world situations, EMERALD's case provides additional context. This study illustrates how routines are internalised through practice, reflection, and feedback rather than merely adopted using Burns and Scapens' framework. In addition to meeting regulatory requirements, EMERALD's internal initiatives also influenced them. Its influence in co-creating policy is demonstrated, for instance, by its participation in the drafting of SGF 2010. This sets EMERALD apart as a case where institutional change is driven from within, supported by empirical insight rather than purely theoretical generalisation.

Although they concentrated on actor contestation and resistance, Nor Aziah and Scapens also used case study methodology. The story of EMERALD is different because internal agents, like compliance managers and Shariah officers, led change from within. This is consistent with the idea of institutional work put forth by Lawrence and Suddaby (2006), which acknowledges the proactive part that people play in maintaining institutional arrangements. Alam and Miah (2024) provide insightful information about how institutional theory can help us comprehend Shariah governance on a larger scale. Understanding cultural resistance to institutional change is deepened by neither Aziah nor Scapens. However, EMERALD's case is notable for exhibiting a multifaceted, internally motivated, and progressive approach to institutionalisation.

EMERALD is a prime example of how Islamic financial institutions can transition from early adopters to architects of regulatory change through the effective embedding of risk, compliance, audit, review, and research functions. A mature model of Shariah governance institutionalisation, based on both religious integrity and regulatory compliance, is demonstrated by the persistence of institutional routines, the continuous improvement of guidelines, and the lack of internal resistance. Nonetheless, the study discovered that coercive isomorphism had a significant impact on EMERALD's institutional transformation. The design of EMERALD's governance structures was influenced by BNM regulatory mandates as well as the legal implications under IFSA 2013 (Alam et al., 2021; Nasir et al., 2021). As the Chief Shariah Division stated,

“IFSA 2013 is a sequel to IBA 1983. But IFSA 2013 is more comprehensive... Failure to comply with this law can be subject to a fine of RM25 million- and 8-years imprisonment.”

This supports the claim made by Karbhari, Alam, and Rahman (2021) that formalising Shariah governance requires the use of legal mandates and enforcement mechanisms. Similar regulatory trends can be seen in Pakistan, where standardised Shariah frameworks were enforced by the State Bank. The case of EMERALD, however, was unique in that it participated in the regulatory discourse as well as being a recipient of it (Ali and Ifraq, 2024).

It was observed that mimetic isomorphism was significant in the early stages of EMERALD's development when it benchmarked its governance against AAOIFI standards. But instead of copying peers, EMERALD brought its long-standing practices into compliance with official regulations following the release of SGF 2010 and SGPD 2019. As affirmed by the General Manager,

“Easily we can comply because we have been practising it...”.

This demonstrates that EMERALD was not merely copying other institutions but had institutionalised sound practices ahead of the curve (Dua, 2022).

Additionally, normative pressures were at work. EMERALD made extensive use of skilled Shariah scholars and enabled them to contribute to regulatory institutions, such as the Shariah Advisory Council of BNM. This supports the focus Karbhari et al. (2021) placed on educational norms and professional standards as significant forces behind institutionalisation. A precedent was established by the early IBA 1983 self-regulatory initiatives. EMERALD had already started incorporating Shariah principles into its operational framework before BNM provided comprehensive guidelines (Khatib et al., 2022). This was further supported by the Shariah Division's formalisation under SGPD 2019. As highlighted by the General Manager,

“There was no Shariah Division during that time. Now, we have a Secretariat under the Shariah Division to assist the Shariah Committee.”

This development illustrates how EMERALD's Shariah governance matured both in structure and function.

All things considered, EMERALD stands out as an institution that internalised and even influenced external regulations rather than just following them. It established a strong Shariah governance framework by combining internal initiative with regulatory responsiveness. This study provides a thorough explanation of how change is progressively assimilated and implemented within institutional routines by utilising OIE and the Burns and Scapens (2000) model. Even though they all use institutional theory, the studies' reflections of various realities enhance our comprehension of EMERALD's case study.

While EMERALD offers a unique example of institutional alignment and leadership, where Shariah governance practices were not only internalised but also shaped regulators' policy and framework, Alam and Miah (2024) provide conceptual generalisation, and Nor Aziah and Scapens (2007) illustrate the complexities of institutional resistance. These examples highlight how adaptable and useful institutional theory is for comprehending how Shariah governance has changed in various Islamic institutional contexts. The development demonstrates how Shariah governance practices can be institutionalised through shared values, dedicated institutional members, and meticulously ingrained routines in addition to regulations and enforcement. Because of this, EMERALD is a unique example of Shariah governance practices that are both internally sustainable in its Shariah compliance and aligned with regulators.

7.2.1 Research Question 1 - Why does the Islamic bank institutionalise their Shariah governance practices?

Shariah governance in IFIs has evolved from a system that was largely informal and ad hoc to a more formalised and structured system. The early years of Islamic banking in Malaysia faced limited information on how to manage Islamic banks and a lack of clarity and consistency in Shariah governance practices. This was due to several factors, including the inexistence of specific guidelines on Shariah compliance, the shortage of competent and qualified Shariah scholars, and the bank's lack of experience in implementing Shariah governance practices.

In the late 1990s and early 2000s, the Malaysian government, with the help of BNM and other Islamic agencies, initiated the steps to formalise and strengthen Shariah governance in Islamic banks. This led to the establishment of the Shariah Advisory Council

at BNM and the issuance of BNM GPS 1 2004, SGF 2010, IFSA 2013 and SGPD 2019. These evolutions have helped to institutionalise the Shariah governance practices and strengthened Shariah compliance in Malaysian Islamic banks. However, there is still room for improvement, particularly in the areas of embedding Shariah governance in aspects like embedding Shariah governance practices into the bank's institutional culture, norms, and values for monitoring and enforcing Shariah compliance.

Institutionalising Shariah governance practices ensures a seamless integration of regulatory requirements with Shariah principles, thus avoiding potential conflicts. This harmonisation occurs through internally structured governance frameworks where regulatory guidelines and policies are constructed in line with Shariah guidelines. The Shariah Committee plays an essential role in this process, reviewing financial products to ensure Shariah compliance before being introduced, ensuring compliance with Shariah requirements. This prevents conflicts of Shariah non-compliance within the Islamic bank. The findings highlighted by the General Manager,

"They had this Shariah risk management control function earlier than the issuance of the SGF 2010. When BNM came for the Shariah review process post-SGF 2010, they commented on the reporting line that changed the internal structure of EMERALD."

This indicates that regulatory oversight has played a role in shaping governance structures within Islamic banks, leading to more formalised governance mechanisms.

Furthermore, the institutionalisation of Shariah governance practices incorporates flexibility to accommodate Shariah compliance. A key example is the prohibition of interest (riba) in Islamic finance. Instead of conventional interest-based lending, Islamic banks adopt profit-sharing agreements such as Mudarabah (profit-sharing) and Murabaha

(cost-plus financing), which align with both financial product expectations and Shariah compliance. As noted by the Head of Compliance Function,

"Shariah review guidelines must be periodically revised to accommodate EMERALD needs and requirements."

These reflect the continuous effort to align Shariah governance practices with Shariah principles while meeting institutional objectives.

Customer demand is another force factor for institutionalising Shariah governance practices. Islamic banking customers actively seek Shariah-compliant products and services, and a strong Shariah governance framework reassures them of the bank's commitment to upholding Islamic financial principles. In the competitive growth of the financial industry, institutionalising Shariah governance practices allows Islamic banks to differentiate themselves from both Islamic and conventional banks. This can be appealing to customers who prioritise Shariah-compliant financial solutions.

Moreover, institutionalising Shariah governance practices fosters a culture of Shariah compliance within the institution, hence attracting and retaining qualified Shariah scholars who provide essential guidance on adherence to Islamic principles. A well-established Shariah governance framework enhances the bank's Shariah reputation and credibility within the industry, thus strengthening trust among stakeholders and regulators. This is evidenced by the Head of Compliance Function,

"The working environment will no longer be the same in each Shariah control function. We are now independent from the Shariah division",

which shows the progressive evolution towards structured Shariah governance practices.

EMERALD's institutionalisation ensures the smooth encoding, enactment, and reproduction of Shariah governance practices, reinforcing both Shariah compliance and integrity within the Islamic bank. Institutionalising Shariah governance practices is a continuous process that requires ongoing regular review, monitoring, and adaptation. Islamic banks must remain proactive in refining their Shariah governance practices to align with evolving BNM regulatory requirements, ultimately ensuring sustainability and strengthening Shariah compliance.

7.2.2 Research Question 2 - How does the institutionalisation of Shariah governance practices occur?

Shariah governance practices in a Malaysian Islamic bank, particularly in EMERALD, are institutionalised through structured mechanisms that embed Shariah compliance into the banks' operational framework. These mechanisms include the establishment of a Secretariat to the Shariah Committee, Shariah Committees, the appointment of Shariah officers, the development of Shariah policy manuals, and the provision of specific Shariah training to employees. These mechanisms facilitate the institutionalisation process in EMERALD and demonstrate its distinct operational characteristics compared to other IFIs.

A key feature of EMERALD's approach is the integration of Shariah governance practices into its decision-making processes through the active engagement of its Shariah Committee. Unlike the conventional oversight role, EMERALD's Shariah Committee is involved in an iterative consultation process with business units, ensuring that Shariah compliance is embedded from the product conceptualisation stage rather than being a post-development validation. This ensures that Shariah governance practices are not a

compliance function but an underlying part of the bank's business strategy. To further institutionalise this practice, the Shariah Risk Management Officer 1 elaborated that,

"Once the team has identified a potential SNC event, they conduct a risk control self-assessment (RCSA) to assess the SNC risk from the perspective of gaps. For example, if there is a loss event, the team will include the loss event or findings in the RCSA to identify ways to mitigate the risk".

This ensures proactive Shariah compliance in mitigating the Shariah non-compliance risk.

Additionally, the institutionalisation of Shariah governance in EMERALD is reinforced through tailored training programmes. These programmes go beyond generic Shariah training by incorporating case studies based on EMERALD's specific operational challenges, practical workshops, and scenario-based learning. For instance, training sessions for product development teams include interactive engagements with Shariah scholars, where Shariah officers analyse real-life Islamic banking products and assess their Shariah compliance risks. Members of the Shariah Committee also undergo continuous professional development, including exposure to evolving Shariah standards and regulatory updates. The approach is further refined by a structured Shariah review process, as mentioned by the Head of the Shariah Compliance Function,

"We will identify whether staff need training and in what areas when we conduct our reviews. We will suggest the types of training".

This ensures that the training remains relevant and impactful in the institutionalisation of Shariah governance practices.

The implementation of Shariah governance practices through a structured Shariah audit and compliance review mechanism in EMERALD involves several processes: pre-emptive compliance checks during product structuring, real-time monitoring through a

dedicated compliance dashboard, and post-execution audits by the Shariah audit team. It institutionalises Shariah governance practices as a dynamic and proactive process rather than a static regulatory requirement. Through this structured review, as stated by Shariah Risk Management Officer 1,

" EMERALD can assess and measure the potential impact of Shariah non-compliance risk exposures."

Thus, ensuring continuous improvement in compliance measures.

Furthermore, the formalisation of Shariah compliance policies in EMERALD is an adaptive Shariah governance practice. Policies are not only documented in the Shariah Policy Manual but are also subject to periodic review and refinement based on internal assessments and regulatory shifts. The institutionalisation of these policies is achieved through mandatory compliance drills and assessment frameworks, ensuring institutional members internalise these guidelines rather than merely adhering to them as a procedural obligation. As said by the Head of Shariah Compliance Function,

"Any policies stated in the Shariah policy manual have been revised regularly to keep up with the current situation in the industry".

It demonstrates EMERALD's commitment to sustaining its Shariah governance best practices.

Overall, the institutionalisation of Shariah governance practices in EMERALD lies in the continuous refinement of Shariah governance policies, ongoing training and the strategic role of BOD and Shariah Committee oversight in decision-making. These elements collectively contribute to more deeply institutionalised and dynamic Shariah governance practices.

7.2.3 Research Question 3 – What is the control mechanism adopted to address the issues of institutionalisation of Shariah governance practices in Islamic banks?

There are several challenges in institutionalising Shariah governance practices within EMERALD. It includes a lack of awareness among institutional members, resource constraints, limited availability of competent and qualified Shariah scholars, and the need for evolving Shariah governance frameworks and policies. To address these challenges, EMERALD has adopted structured control mechanisms to ensure the consistent implementation, monitoring, and enhancement of Shariah governance practices within its framework.

One of the key control mechanisms in addressing institutionalisation is Shariah Risk Management, which ensures that potential risks related to non-compliance are identified, assessed, and mitigated. Risk Control Self-Assessment (RCSA) is a key tool used by EMERALD to institutionalise Shariah risk management processes. According to Shariah Risk Management Officer 2,

“After the SNC event, we will go through the risk control self-assessment (RCSA) process to identify and evaluate the associated risk”.

This mechanism embeds Shariah governance practices into the institution’s risk culture by requiring Shariah officers to systematically assess Shariah non-compliance risks whenever a Shariah non-compliance (SNC) event occurs.

As mentioned by Shariah Risk Management Officer 1,

“If an Islamic financing product is found to contain elements of *riba* (usury) due to misinterpretation of contractual terms, the RCSA process ensures that the issue is not only rectified but systematically reviewed to prevent recurrence”.

This approach strengthens the Shariah governance practices by ensuring that risk assessments become a routine part of the bank's operations, embedding compliance within its institutionalisation.

Additionally, independent risk investigation by Shariah risk management officers is another key component of risk management. As highlighted by the Head of Shariah Risk Management Function,

“Following the SGPD 2019 requirement, we assess and measure the potential impact of Shariah non-compliance risk exposures.”

This function allows for an objective evaluation of non-compliance cases, ensuring transparency and accountability. According to Shariah Risk Management Officer 1,

“If a customer has not signed the *Aqad* form, the corrective action would be to call the customer to the bank to sign the form. This is one way to mitigate SNC risk. Corrective actions are important to fix what is wrong.”

An independent review is conducted to assess the severity of the Shariah non-compliance and recommend corrective measures. By institutionalising such independent review or investigation, EMERALD ensures that Shariah governance practices are not merely a regulatory requirement but an integral part of its operational framework.

To further institutionalise Shariah governance, EMERALD established a Shariah Compliance Function to ensure continuous monitoring and improvement. One key initiative under this function is conducting surveys to assess staff knowledge, competency, and training needs. As highlighted by the Head of the Compliance Function,

“We will identify whether staff need training and in what areas when we conduct our reviews. We will suggest the types of training.”

This mechanism institutionalises Shariah governance practices by embedding specific required Shariah training into the professional development of institutional members in EMERALD. According to the Head of the Compliance Function,

“If a survey reveals that frontline staff lack understanding in Shariah-compliant financing structures, we can introduce targeted training on *Mudarabah* (profit-sharing) and *Ijarah* (leasing) contracts.”

The survey ensures that Shariah governance practices are not merely a set of policies but are continuously institutionalised and integrated into the institution’s learning and development framework.

Another mechanism is regular updates of Shariah guidelines to align governance with evolving industry standards. As noted by the Head of Compliance Function,

“The guideline has been constantly evolving as we revise it to keep up with the current situation in the industry.”

This proactive approach institutionalises Shariah governance practices by ensuring that policies remain relevant and effective. He further said,

“If a new ruling from the Shariah Advisory Council (SAC) requires changes in contract structuring, EMERALD promptly updates its guidelines and communicates them across departments.”

This prevents outdated Shariah governance practices and ensures continuous parallel with Shariah principles.

The Shariah Audit Function plays a crucial role in institutionalising governance through oversight and accountability mechanisms. EMERALD has established a Self-

Regulated Audit Programme that standardises Shariah audit procedures. The Head of Shariah Audit Function explained,

“To guide on gathering information, auditing procedures and audit assessment, we develop a documented Shariah audit programme.”

This institutional mechanism ensures that Shariah governance practice is an established systematic process. According to Shariah Audit Officer 1,

“Before launching a new product, the Shariah audit team ensures that all documentation, contract structures, and marketing materials comply with Shariah principles.”

This prevents non-compliance before it occurs and embeds governance into product development processes.

Ahead of these formal mechanisms, the institutionalisation of Shariah governance practices in EMERALD is highlighted through competency development, top management support, and evolving policies. Continuous education and training ensure that institutional members remain well-versed in Shariah governance practices, while top management and Shariah Committees provide support to compliance culture. Integrating structured control mechanisms into its Shariah risk management, compliance, and audit functions ensures that Shariah governance practices are not just a regulatory requirement but an institutional practice. The use of risk assessments, independent investigations, ongoing training, updated guidelines, and structured audits ensures that Shariah governance practices are routinised in their operation to avoid Shariah non-compliance.

7.3 CONTRIBUTION OF THE STUDY

This section discusses the theoretical and practical contributions of this study.

7.3.1 Theoretical Contributions

Shariah governance plays a pivotal role in ensuring the integrity and compliance of IFIs with Shariah. As the Shariah governance evolves, the institutionalisation of Shariah governance practices becomes important, shaping the regulatory framework and operational landscape of IFIs. This study explores the institutionalisation of Shariah governance practices' theoretical contributions by applying the Burns and Scapens' (2000) framework within OIE. By examining the institutionalisation of Shariah governance practices within EMERALD, this study provides insights into the routinisation of rules within Islamic banks.

This study includes an application of Burns and Scapens' (2000) framework within the institutional theory: The study demonstrates how Shariah governance practices became embedded within EMERALD's institutional framework over time. By applying the Burns and Scapens' framework, which is rooted in OIE, the study rationalises how informal routines progressively transformed into formalised structures, ensuring compliance and efficiency in Shariah-related decision-making processes. This study also reflects the NIS perspective where external pressures from regulatory bodies, such as BNM, acted as coercive forces driving institutionalisation. It is associated with the evolutionary nature of change in Shariah governance practices, where institutionalisation routinised the rules. This study also incorporates the elements of NIE, particularly in how transaction costs are minimised through structured Shariah governance mechanisms.

This study contributes to academic discourse by bridging the institutional theory with Islamic accounting studies. The conventionally institutional theory focuses on institutional behaviour, regulatory compliance, and structural changes within institutions. The application by considering the institutional theory within the context of Shariah governance practices demonstrates how Islamic banks undergo institutionalisation while adhering to Islamic principles. By linking these fields, the study provides a deeper understanding of how Shariah governance practices in Islamic banks change. The distinction between regressive and progressive institutional changes is also evident in this case study as Shariah governance practices become best practices, indicating progressive institutionalisation. This highlights the commitment to change and adaptation of Islamic principles within Shariah governance practices.

This study enriches the existing body of knowledge on Shariah governance practices by adding literature on the institutionalisation of Shariah governance practices within Islamic banks. It highlights the critical role of Shariah control functions (Shariah audit, Shariah risk management, and Shariah compliance) and the Shariah Committee in ensuring Shariah compliance. Additionally, the study explores the formal BNM regulatory requirements and informal institutional practices, demonstrating how these elements influence Shariah governance practices in Islamic banks. The shift from informal to formal Shariah governance practices in EMERALD portrays an institutionalisation and indicates an evolutionary change rather than a revolutionary transformation.

EMERALD's institutionalisation serves as a model for other Islamic financial institutions. The study presents EMERALD's institutionalisation of Shariah governance practices as a reference model for other Islamic financial institutions. The structured implementation of Shariah governance practices, the development of Shariah control functions, and the emphasis on Shariah compliance offer a replicable framework for IFIs aiming to strengthen their governance mechanisms. By demonstrating how EMERALD

navigated the changes and institutional restructuring of Shariah governance practices, this study provides a benchmark for IFIs seeking to institutionalise Shariah governance practice effectively. The transformation of Shariah governance practices within EMERALD is an evolutionary institutionalisation when the Shariah governance practices are adapted and modified to suit the existing routines and practised over time.

Eventually, the institutionalisation of Shariah governance practices in EMERALD contributed towards enhancing work performance accuracy and fostering professional growth among institutional members. This process strengthened Shariah compliance and cultivated a culture of continuous improvement and knowledge-sharing within the institution.

7.3.2 Practical Contributions

This study provides practical contributions by investigating the institutionalisation of Shariah governance practices in EMERALD, particularly concerning Shariah control functions. The institutionalisation process plays a critical role in strengthening Shariah governance practices to ensure Shariah compliance. Such contribution is evident in multiple dimensions, including the enhancement of operational guidelines, structured risk management practices, and updated self-governance framework and guidelines.

Institutionalisation promotes the development of proper internal guidelines and manuals within Islamic banks. These documents serve as structured references that ensure operational consistency, clarity, and adherence to Shariah principles. Clearly defined procedures help the Shariah members minimise ambiguities in decision-making, reduce the

risk of non-compliance, and enhance Shariah governance practices. The findings show that practical knowledge is continuously developed and refined through work experiences, training programmes, and specific training and courses offered by EMERALD. This resulted in the development of formal guidelines and manuals, improved Shariah compliance efficiency, and reduced the potential non-compliance risk over time.

The institutionalisation of Shariah governance enhances risk management by enabling early detection of potential risk exposure. By embedding the control mechanisms, Islamic banks can identify operational and Shariah non-compliance risks before they escalate into Shariah non-compliance issues. Institutionalisation provides sufficient time and space for refining Shariah governance practices, allowing Islamic banks to adapt to emerging risks and regulatory changes while ensuring Shariah compliance.

This study highlights the implementation of new tools and mechanisms as the best practices to ensure Shariah compliance. These mechanisms may include digital compliance tracking systems, automated risk assessment tools, and enhanced monitoring frameworks that help institutions align with Shariah requirements more effectively. This study also denotes the role of BNM in enhancing Shariah governance. The institutionalisation supports BNM in refining Shariah governance practices, ensuring that IFIs operate within a well-defined Shariah-compliant structure. This includes improvements in supervisory oversight, regulatory enforcement, and compliance evaluation.

Overall, the institutionalisation of Shariah governance practices benefits both IFIs and BNM as a regulatory body by strengthening governance frameworks and policies, enhancing risk management capabilities, and improving Shariah compliance. These improvements contribute to the stability and integrity of the Islamic financial industry, thus

emphasising public trust in the industry. Institutionalisation also ensures sustainable growth and Shariah compliance of an Islamic bank.

7.4 LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

The limitations of the study are addressed, with recommendations put forward for future research on the institutionalisation of Shariah governance practices.

Generalisability: This study was conducted as a single case study focusing on EMERALD, an Islamic bank. While the findings provide valuable insights into the institutionalisation of Shariah governance practices within EMERALD, the applicability to other IFIs is limited. The governance structures, operational frameworks, and decision-making processes within EMERALD are shaped by its unique institutional culture and regulatory environment. As a result, the findings may not be fully representative of the broader Islamic banking industry. Moreover, IFIs operate under diverse regulatory and cultural conditions, which influence the adoption and effectiveness of Shariah governance practices. Therefore, the findings of this study may not reflect the experiences of other IFIs operating in different jurisdictions with varying regulatory pressures, market dynamics, and institutional challenges.

Value-Free Perspective: The findings of this study are confined to the defined research objectives and scope without making broader generalisations beyond the institutional setting under investigation. The analysis primarily focused on the institutional processes, institutional mechanisms, and governance structures within EMERALD.

Consequently, any conclusions drawn may not extend to different Islamic banking environments, regulatory landscapes, or alternative models of Shariah governance. A broader study involving multiple Islamic financial institutions, diverse governance frameworks, and different regulatory environments will provide extensive insights into the evolution of Shariah governance practices.

Independence Issue: This study was conducted in an environment characterised by a highly supportive working culture where institutional resistance to governance practices was minimal. EMERALD's institutional structure, corporate culture, and regulatory compliance mechanisms facilitated a smooth implementation of Shariah governance practices, allowing the study to examine the institutionalisation process with relatively limited internal obstacles. However, this setting may not accurately reflect the realities of other IFIs, particularly those facing stronger internal or external barriers to implementing Shariah governance. In some institutions, resistance from the management, operational staff, or external stakeholders could pose significant challenges to institutionalising governance practices. Therefore, the findings of this study may not fully capture the complexities of governance adoption in less cooperative or more challenging institutional environments.

Limited Relevance Across Regions: The regulatory and governance frameworks for Islamic banks vary significantly across different jurisdictions. While this study provides insights into Shariah governance practices within EMERALD, which operates under Malaysia's specific regulatory environment, its relevance to Islamic banks in other countries may be constrained. Differences in legal systems, Shariah interpretations, market conditions, and governance structures could influence the extent to which the findings apply across regions. For instance, Islamic banks in jurisdictions with less developed regulatory oversight or differing interpretations of Shariah compliance may face different challenges and opportunities in institutionalising governance practices.

Lack of References: The application of Burns and Scapens' (2000) institutional framework in the context of Islamic finance is relatively new. As a result, there is a limited body of existing literature validating the use of this framework in Islamic banking research. The findings of this study should be interpreted with caution, as further empirical research is needed to assess the robustness and applicability of Burns and Scapens' (2000) framework in the Shariah governance domain. The institutional theory has been widely applied in corporate governance research, yet its usage in the study of Islamic financial institutions remains underdeveloped. Additional studies incorporating this theoretical perspective in different Islamic banking contexts are needed to strengthen its credibility and relevance. Researchers should consider further refining the application of this framework by examining how the institutional theory can offer deeper insights into the mechanisms shaping Shariah governance practices over time.

Future research should conduct comparative analyses of Shariah governance institutionalisation across different types of Islamic financial institutions. This includes full-fledged Islamic banks, Islamic banking subsidiaries, and Islamic windows within conventional banks. These studies will help identify variations in governance practices, institutional constraints, and strategic adaptations across different operational models. Comparative studies will also allow researchers to examine how different governance structures influence the effectiveness of Shariah compliance mechanisms. For example, full-fledged Islamic banks may have more established Shariah governance frameworks, whereas Islamic windows within conventional banks may face challenges integrating Shariah principles within a conventional banking framework. Understanding these variations will offer a better understanding of Shariah governance practice institutionalisation in Islamic finance institutions.

A cross-country comparative study examining Islamic banks in Malaysia and other jurisdictions will offer valuable insights into regional differences in Shariah governance.

Since regulatory frameworks, market conditions, and institutional cultures vary across countries, such research could help determine best practices and highlight challenges in ensuring effective Shariah compliance on a global scale. For instance, the institutionalisation of Shariah governance practices in Gulf Cooperation Council (GCC) countries may differ from that in Malaysia due to differences in regulatory oversight, central Shariah authorities, and market dynamics. A comparative study can examine how different regulatory environments impact the development and implementation of governance practices, providing insights into best practices that can be adopted across jurisdictions.



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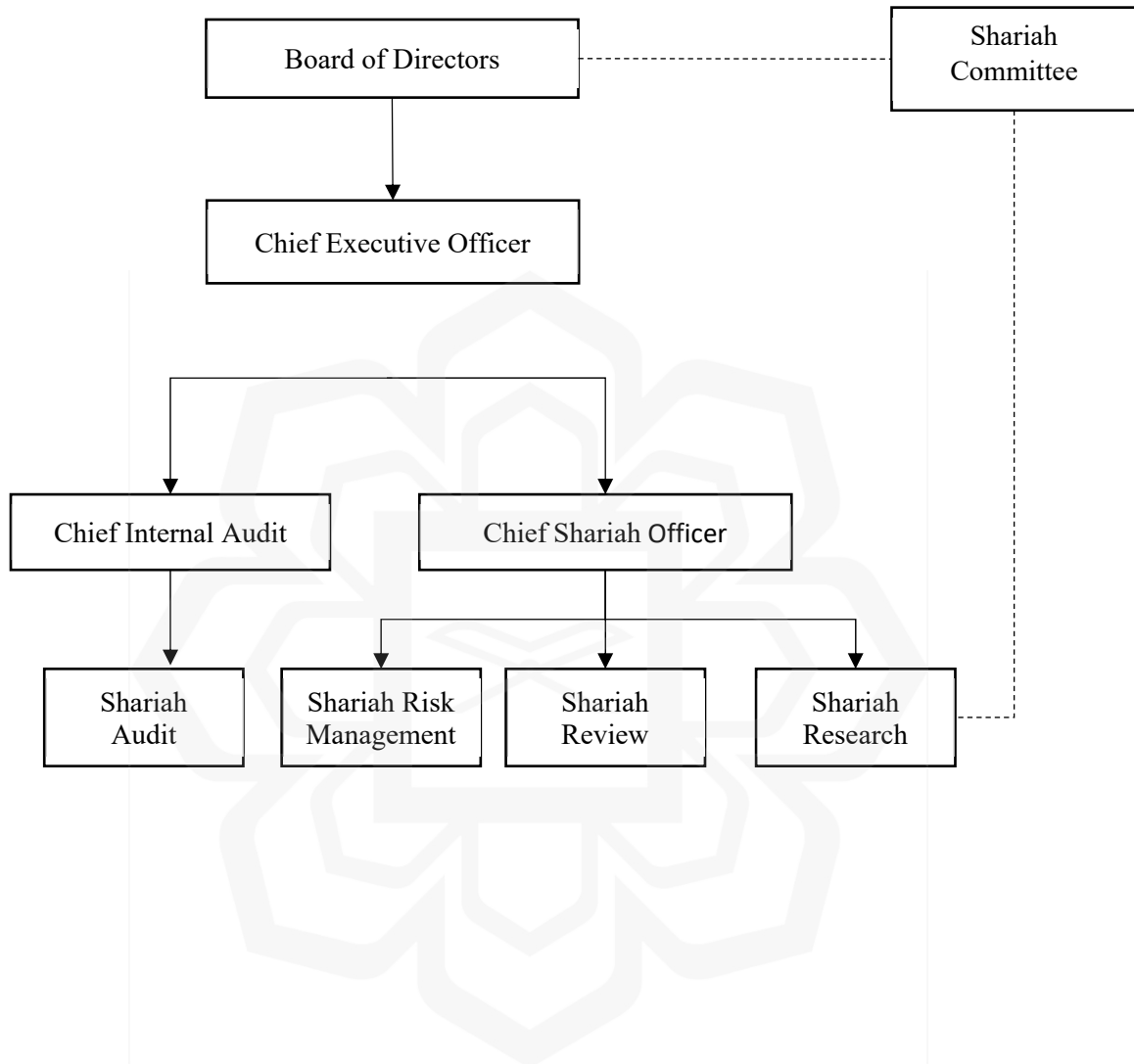
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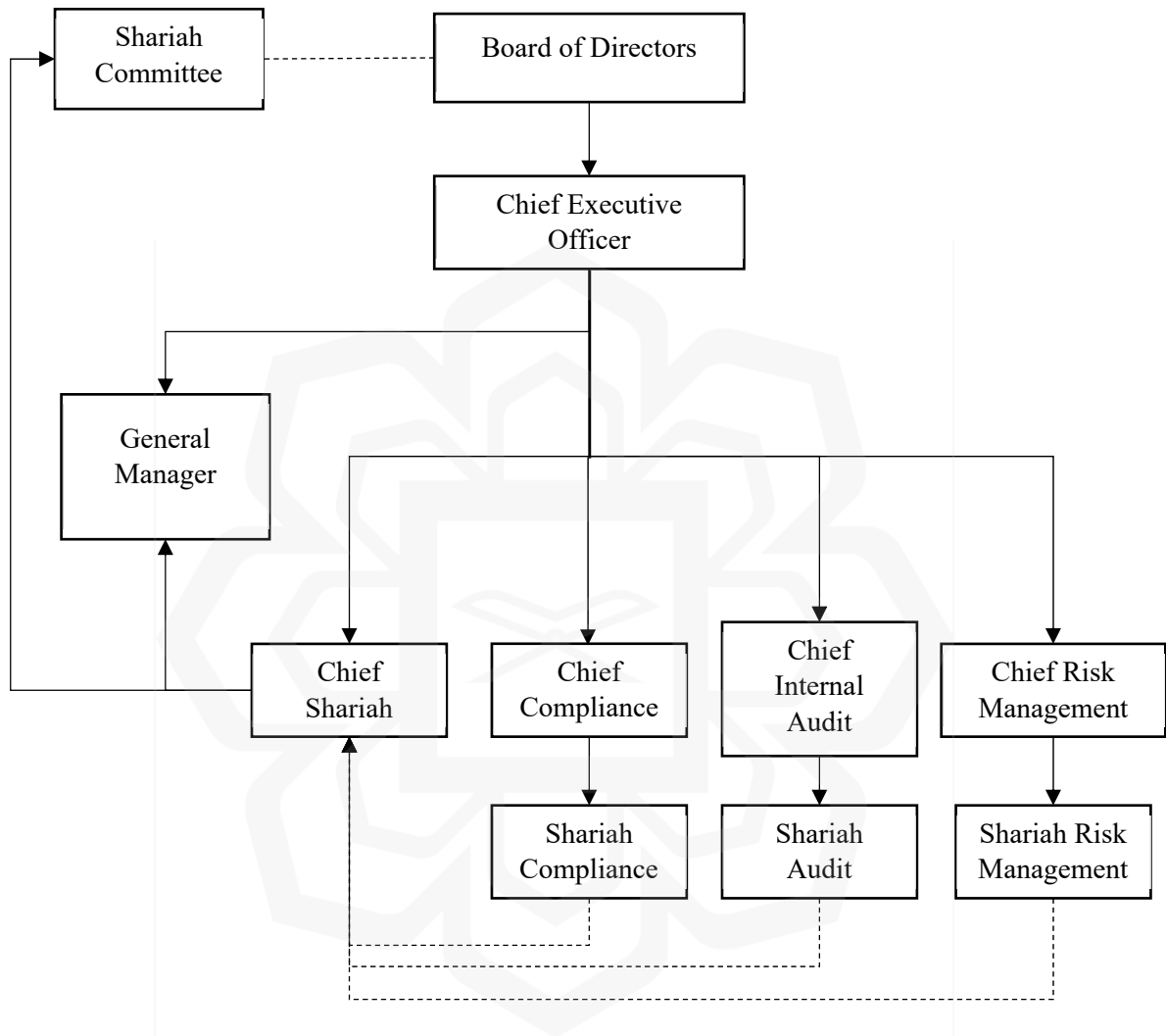
APPENDIX I: Institutional structure of EMERALD complies with SGF 2010

Source: EMERALD Annual Report Year 2012

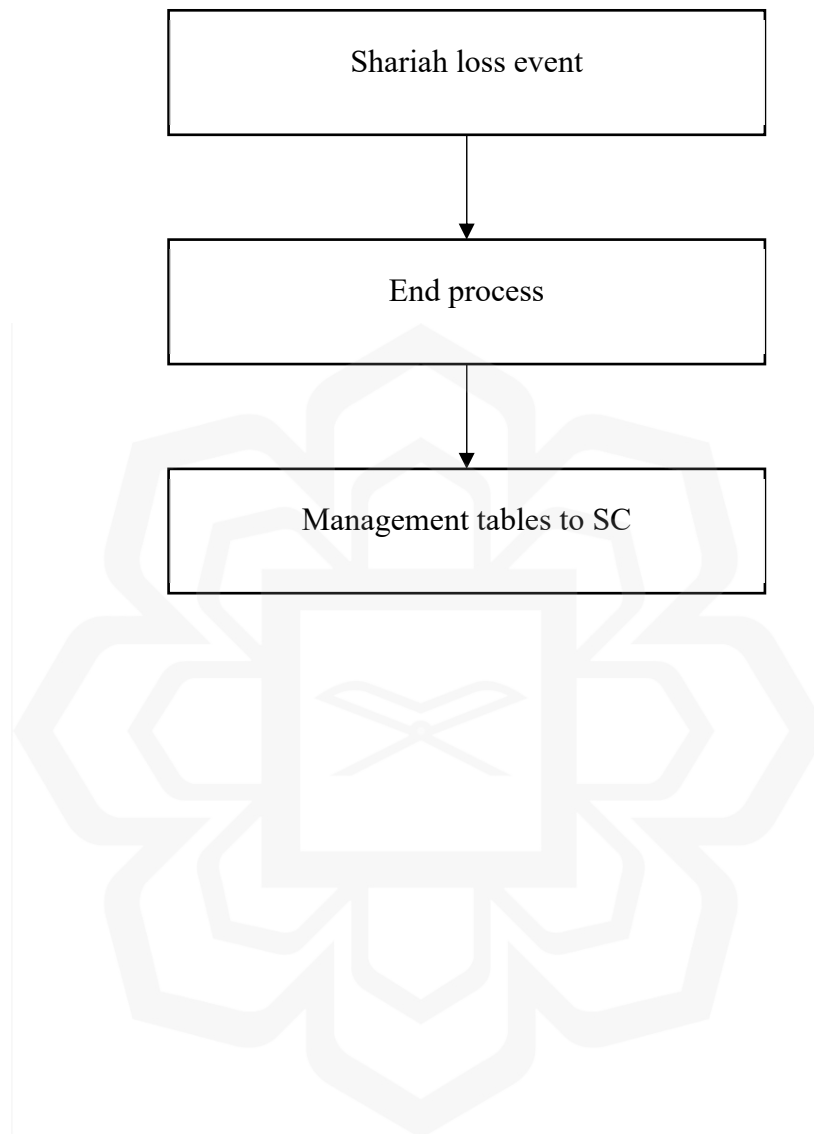


APPENDIX II: Institutional structure of EMERALD complies with SGPD 2019

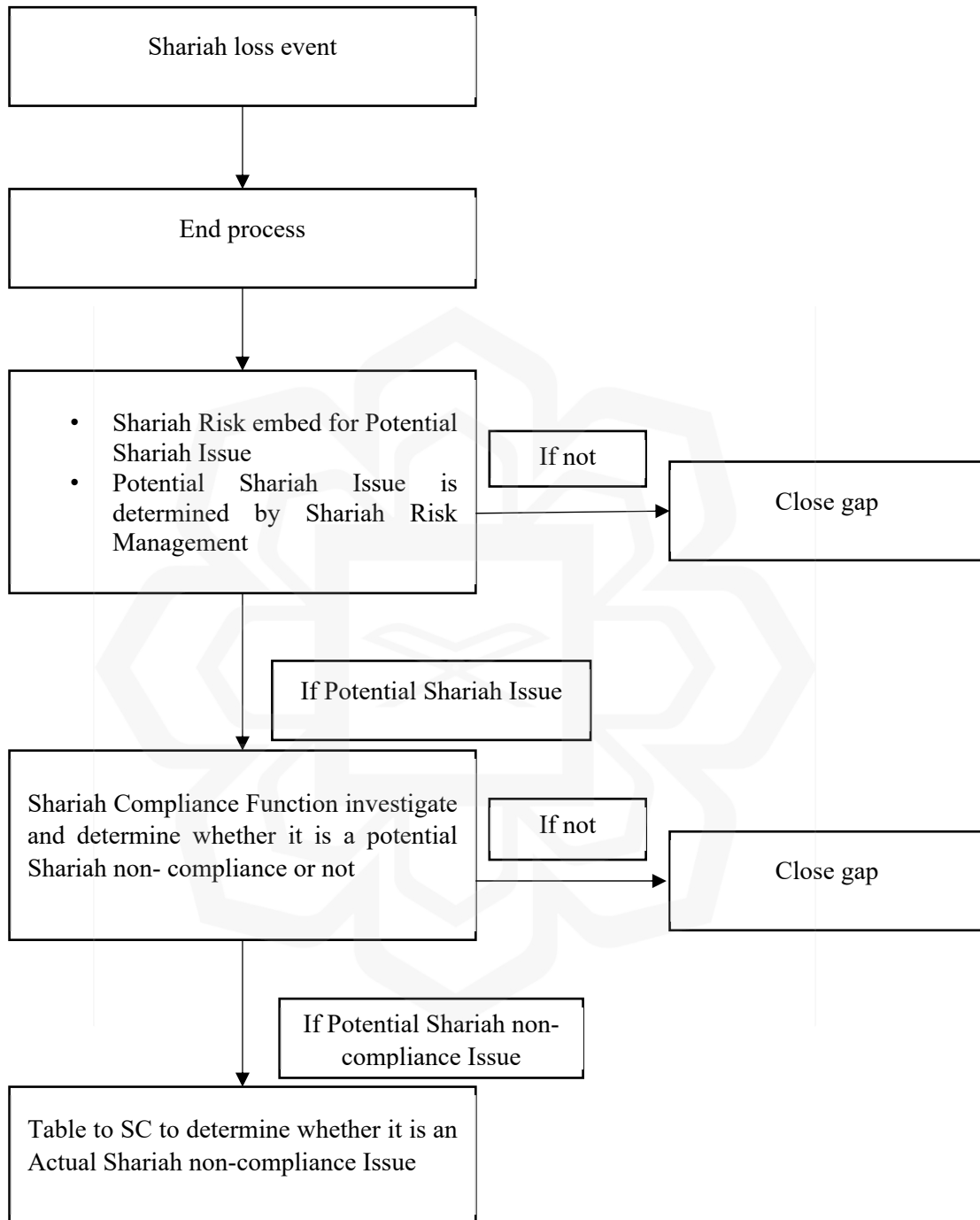
Source: EMERALD Annual Report 2020



APPENDIX III: Potential Shariah Issue Process flow chart after SGF 2010



APPENDIX IV: Potential Shariah Issue Process flow chart after SGPD 2019



APPENDIX V: Research question and its justification

	Research question	Justification
1	Generally, how has an Islamic bank been affected by the Shariah governance framework issued by BNM?	● To describe how has an Islamic bank been affected by the Shariah governance framework issued by BNM
2	What are the roles and functions of BNM/GPS 1, SGF 2010 and IFSA 2013 as perceived by the Islamic bank organisational members?	● To identify the roles and functions of BNM/GPS 1, SGF 2010 and IFSA 2013 as perceived by Islamic bank organisational members.
3	What are the norms and values that underpin the Shariah governance framework? a. Does the framework need new ways of thinking and doing things in the Islamic bank? b. What are the implications of such institutionalisation? c. How does the Shariah governance framework bring changes to the Shariah governance key actor's structure, processes and arrangements? d. How does the Shariah governance framework bring changes to the products, services, operations, practices and management of an Islamic bank? e. How does the Shariah governance framework bring changes to the accounting disclosure of an Islamic bank?	● To reveal the norms and values that underpin the Shariah governance framework. ● To identify the new mechanisms or tools to ensure effective Shariah governance. ● To find out any implication or consequences of institutionalisation process. ● To trace the changes in the hierarchical position of internal Shariah compliance functions. ● To investigate the changes in the internal policy, contracts, agreements, marketing strategies of the products, services, operations, practices and management of an Islamic bank. ● To analyse any changes of accounting disclosure from the evolved Shariah governance framework.
4	What are the issues and challenges faced by the Islamic bank? a. Is there any resistance to the adoption of the framework? b. How does the Islamic bank adjust to the new ways of thinking and doing things in the Islamic bank?	● To investigate the issues and challenges faced by the Islamic bank. ● To understand any resistance from the organisational members actions and behaviour. ● To seek changes in the Islamic bank activities and organisational members actions and behaviours.
5	How does compliance culture bring about encoding, enacting, reproduction and institutionalisation process of Shariah governance framework in an Islamic bank?	● To evaluate the Shariah compliance culture in bringing about encoding, enacting, reproduction and institutionalisation process of Shariah governance framework in an Islamic bank.

APPENDIX VI: Overall sources of documents reviewed and its justification

Documentary sources	Justifications
Before the case visit a. Newspaper articles b. Magazines articles c. Published Annual Reports – (From year 2010 to year 2021) d. Homepage of the case Islamic bank e. Islamic bank press releases f. Regulator's reports g. Products and services advertisements h. BNM official website i. The BNM GPS 1 2004 issued by BNM j. SGF 2010 issued by BNM k. IFSA 2013 issued by BNM l. SGPD 2019 issued by BNM m. IBA 1983 issued by BNM n. Central Bank Act 2009 issued by BNM o. BOD Charter p. SC Charter During the visit a. Shariah Policy manual b. Products and services Manuals c. Internal memos d. Audit plan, Shariah risk Manuals e. Training manuals f. SC resolutions g. Minutes of meetings	• to obtain information regarding the background of the Islamic bank. • to obtain information concerning the Islamic bank transformation program. • to understand the formal Islamic bank processes, procedures and rules. • to understand the formal process Shariah compliance and institutionalisation. • to find out the types of information used for managing the organisational member actions and behaviour towards Shariah compliance culture and institutionalisation. • to find out the formal roles and functions of BNM GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 • to find out if there are any specific issues being discussed in the meetings (especially if it relates to the Shariah compliance culture and institutionalisation). • to look out for any changes due to the government-lead initiatives. • to look out for changes that have been successfully implemented. • to find out changes that are being promoted but not followed through and the reasons for it. • to determine who is in control of the meeting or who has more say in the meeting. • to determine the characteristics of the hired consultant as change agent • to determine the types of training given to organisational members. • for data saturation, reliability and validity.

APPENDIX VII: Guidelines on interview questions

No.	Interviewee Position	Interview Questions (Institutionalisation associate with the transformation of rules to routines)
1.	General Manager	1. Generally, how has an Islamic bank been affected by the Shariah governance issued by BNM since year 2010 until now? 2. What are the norms and values that underpin by the Shariah governance? 3. How does the Shariah governance practices bring changes to the accounting disclosure of an Islamic bank? 4. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 5. What are the implications of such institutionalisation of Shariah governance practices? 6. How does the Islamic bank adjust the issues and challenges of the new ways of thinking and doing things in the Islamic bank? 7. Do the Shariah governance practices need new ways of thinking and doing things in the Islamic bank? 8. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?
2.	Chief Shariah Division/ Secretariat	1. Generally, how has an Islamic bank been affected by the Shariah governance issued by BNM since year 2010 until now? 2. What are the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by the Islamic bank organisational members? 3. How does the Shariah governance bring changes to the Shariah governance practices key actor's structure, processes and arrangements?

		4. How does the Shariah governance bring changes to the products, services, operations, practices and management of an Islamic bank? 5. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 6. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?
3.	Head of Shariah risk management function	1. What are the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by the Islamic bank organisational members? 2. How does Shariah governance bring changes to the Shariah governance practices key actor's structure, processes and arrangements? 3. How does the Shariah governance bring changes to the products, services, operations, practices and management of an Islamic bank? 4. How does the Shariah governance practices bring changes to the accounting disclosure of an Islamic bank? 5. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 6. What is the resistance to the institutionalisation of the Shariah governance practices? 7. How does the Islamic bank adjust the issues and challenges of the new ways of thinking and doing things in the Islamic bank? 8. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?
4.	Head of Shariah compliance function	1. What are the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by the Islamic bank organisational members? 2. How does the Shariah governance bring changes to the Shariah governance practices key actor's structure, processes and arrangements? 3. How does the Shariah governance bring changes to the products, services, operations, practices and management of an Islamic bank?

		4. How does the Shariah governance practices bring changes to the accounting disclosure of an Islamic bank? 5. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 6. What is the resistance to the institutionalisation of the Shariah governance practices? 7. How does the Islamic bank adjust the issues and challenges of the new ways of thinking and doing things in the Islamic bank? 8. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?
5.	Head of Shariah audit function	1. What are the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by the Islamic bank organisational members? 2. How does the Shariah governance bring changes to the Shariah governance practices key actor's structure, processes and arrangements? 3. How does the Shariah governance bring changes to the products, services, operations, practices and management of an Islamic bank? 4. How does the Shariah governance practices bring changes to the accounting disclosure of an Islamic bank? 5. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 6. What is the resistance to the institutionalisation of the Shariah governance practices? 7. How does the Islamic bank adjust the issues and challenges of the new ways of thinking and doing things in the Islamic bank? 8. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?

6.	Shariah officer	1. How does the Shariah governance bring changes to the Shariah governance practices key actor's structure, processes and arrangements? 2. How does the Shariah governance bring changes to the products, services, operations, practices and management of an Islamic bank? 3. What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank? 4. What is the resistance to the institutionalisation of the Shariah governance practices? 5. How does the Islamic bank adjust the issues and challenges of the new ways of thinking and doing things in the Islamic bank? 6. How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?
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APPENDIX VIII: Manual process of developing themes (for case findings based on Research Objectives, Main Research Questions and Specific Research Question).

RESEARCH OBJECTIVES	MAIN RQs	SPECIFIC RQs		KEYWORDS(THEMES)
			Justifications	
1. to explain the evolution of Shariah governance in Islamic banks in Malaysia.	Why does the Islamic bank institutionalise the Shariah governance practices?	Generally, how has an Islamic bank been affected by the Shariah governance regulations issued by BNM?	To describe how has an Islamic bank been affected by the Shariah governance issued by BNM	EFFECT (BEGINNING OF Islamic bank, TRAINING, REGULATOR, INFLUENCE BY RENONWED SCHOLAR)
2. to understand the institutionalisation of Shariah governance in a Malaysian Islamic Bank.	How does the institutionalisation of Shariah governance practices change?	What are the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by the Islamic bank organisational members?	To identify the roles and functions of BNM/GPS 1, SGF 2010, IFSA 2013 and SGPD 2019 as perceived by Islamic bank organisational members.	ROLES AND FUNCTION
	What are the control mechanisms adopted in dealing with the issue and challenges of institutionalisation of Shariah governance practices in Islamic bank?	What are the norms and values that underpin the Shariah governance?	To reveal the norms and values that underpin the Shariah governance.	VALUE ADDED AND NORMS
		a. Does the Shariah governance practices need new ways of thinking and doing things in the Islamic bank?	To identify the new mechanisms or tools to ensure effective Shariah governance practices.	NEW MECHANISM OR TOOLS
		b. What are the implications of such institutionalisation of Shariah governance practices?	To find out any implication or consequences of institutionalisation of Shariah governance practices.	CONSEQUENCES OR IMPLICATIONS
		c. How does the Shariah governance practices bring changes to the Shariah governance key actor's structure, processes and arrangements?	To trace the changes in the hierarchical position of internal Shariah compliance functions.	CHANGES IN REPORTING LINE, KEY ACTORS STRUCTURE, PROCESSES AND ARRANGEMENTS.
		d. How does the Shariah governance practices bring changes to the products, services, operations and	To investigate the changes in the internal policy, contracts, agreements, marketing strategies of the products, services, operations and	ANNUAL REPORT, POLICY DOCUMENTS, CONTRACTS, SERVICES, PRODUCTS, OPERATIONS AND MANAGEMENT.

		management of an Islamic bank?	management of an Islamic bank.	
		e. How does the Shariah governance practices bring changes to the accounting disclosure of an Islamic bank?	To analyse any changes of accounting disclosure from the evolved Shariah governance practices.	ACCOUNTING DISCLOSURE
		What are the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank?	To investigate the issues and challenges faced in institutionalisation of Shariah governance practices by the Islamic bank.	ISSUES AND CHALLENGES
		a. What is the resistance to the institutionalisation of the Shariah governance practices?	To understand any resistance to the institutionalisation from the organisational members actions and behaviour.	RESISTENCE (INTERNAL)
		b. How does the Islamic bank adjust the issue and challenges of the new ways of thinking and doing things in the Islamic bank?	To seek changes of the new ways of thinking and doing things in the Islamic bank activities and organisational members actions and behaviours.	ANY NEW WAYS OF THINKING AND DOING THINGS (MISSION VISION, SUSTAINABILITY REPORT, CSR, EVENTS, PROGRAMES, ACTIVITIES)
		How does Shariah compliance culture bring about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank?	To evaluate the Shariah compliance culture in bringing about encoding, enacting, reproduction and institutionalisation of Shariah governance practices in an Islamic bank.	THROUGH SUCCESFULL(NOT) PROGRAMES, EVENTS, NORMS, ACTIVITIES, REQUIREMENT, TRAINING, DRESS CODE, CODE OF CONDUCT

APPENDIX IX: Data collection time frame

Activity/Month	2021											
	Jan	Feb	Mac	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Letter to bank, list of interviewee and documents to review												
Prepare interview protocol: • Research questions • Participants profile • Interview questions • Make an appointment for interview												
Conduct interview: General Manager												
Conduct interview: Chief Shariah Division (Secretariat/research)												
Conduct interview: Head of Shariah Review /Compliance												
Conduct interview: Shariah Review (Compliance) officers												
Conduct interview: Head of Shariah Risk Management												
Conduct interview: Shariah Risk Management Officers												
Conduct interview: Head of Shariah Audit												
Conduct interview: Shariah Audit Officers												
Documents review												