



## Impact of Shariah Governance Framework, Shariah Supervisory Board, and Shariah Advisory Committee on Islamic Financial Institutions' Performance in Pakistan

<sup>1</sup>Muhammad Arshad & <sup>2</sup>Kashif Saleem

<sup>1</sup>Ph.D. Scholar, Department of Management Sciences, Qurtaba University of Information and Technology (D.I. Khan) and Lecturer, Department of Commerce, Thal University Bhakkar Pakistan

<sup>2</sup>Assistant Professor, Department of Management Science, Qurtuba University DI Khan Pakistan.

### ABSTRACT

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This study investigates the impact of the Shariah Governance Framework, Shariah Supervisory Board, and Shariah Advisory Committee on the performance of Islamic Financial Institutions (IFIs) in Pakistan. Focusing on Islamic banks, Takaful companies, Modaraba firms, and Islamic windows of conventional banks, the research explores how governance structures, organizational strategies, and decision-making processes influence institutional performance. Data were collected from 550 managerial employees across 22 Islamic financial entities using a stratified random sampling technique. A structured questionnaire, developed from validated prior studies and employing a five-point Likert scale, served as the primary data collection instrument, administered both physically and via Google Forms to ensure broad accessibility and high response rates. Descriptive statistics and regression analysis were conducted using SPSS, while PLS-SEM was utilized for construct validation and path modeling. These results underscore the strategic importance of robust Shariah governance in driving sustainable performance across Pakistan's Islamic finance sector. It is recommended that regulatory bodies standardize Shariah governance practices across institutions to ensure consistency and transparency. Innovative integration of AI-based compliance tools may further enhance decision-making efficiency within Shariah-compliant frameworks.

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**Corresponding Author's Email:** [arshadsial.75@gmail.com](mailto:arshadsial.75@gmail.com)

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## 1.0 Introduction

Islamic finance has grown to become a major and fast-growing part of the international financial system, offering a religious alternative to mainstream finance based on Shariah principles. In Pakistan, which is a Muslim country with strong Islamic traditions, the process of building Islamic financial institutions (IFIs) has been not only seen as an economic necessity but also as a moral and religious one. Islamic finance ecosystem in the country includes Islamic banks, Takaful firms, Modarabas, and Islamic windows of conventional banks, and the system has a dual banking system that allows both conventional and Islamic financial institutions to operate simultaneously (Sharif & Jawaid, 2025). The Islamic finance industry in Pakistan has grown steadily in the past 20 years, with the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan encouraging the industry through regulations. However, in spite of this development, there have been lingering doubts as to the efficacy of institutional governance structures, particularly, Shariah governance systems, in propelling performance and sustainability. These questions are especially relevant to the sector as it becomes more complex and the stakeholder expectations of Shariah compliance, transparency, and ethical behavior become more diverse (Habib, 2023).

The institutional development of the Shariah governance of Islamic finance is in itself a reaction as well as a catalyst. Due to the maturity of the industry, there has been increased demand on having a strong governance system that would guarantee strict observance of the Islamic jurisprudence. Central to this governance configuration are three interrelated components the Shariah Governance Framework (SGF), the Shariah Supervisory Board (SSB), and the Shariah Advisory Committee (SAC). Collectively, these bodies monitor, direct and certify that financial products and activities comply with Shariah. Regulatory authorities in Pakistan have tried hard to institutionalize Shariah governance through the issuance of comprehensive frameworks and guidelines (Khalid, 2025). However, there is still no empirical agreement on how these governance structures can actually affect the performance of the institutions. Anecdotal evidence indicates that effective Shariah governance has the potential to raise stakeholder confidence, minimise reputational risk and improve operational efficiency; however, the processes through which governance influences performance, particularly in a developing economy, are under-researched and thus require a robust empirical study.

The Shariah Governance Framework (SGF) refers to an institutionalized system of policies, procedures, and practices that are intended to make sure that an organization is Shariah compliant on all levels. It determines the official framework by which the decisions concerning Shariah are arrived at, executed, and observed. An effective SGF promotes accountability, transparency and defines roles and responsibilities of Shariah governance institutions such as the SSB and SAC. The Shariah Supervisory Board (SSB), typically composed of qualified Shariah scholars, is the principal authority responsible for interpreting Islamic law in the context of financial operations and issuing binding fatwas (Bashir & Babiker, 2023). The role of the board is consultative and supervisory: it advises the management, and it also audits compliance itself. The Shariah Advisory Committee (SAC) is usually a supportive organization to the SSB, and is able

to offer expertise in areas of niche issues and help in the creation of innovative financial products that are not likely to be outside the Shariah. Although these three elements are different, they are closely intertwined, and their overall effectiveness may have a strong impact on institutional performance in terms of strategic orientation, risk management, and ethical behavior (Abid et al., 2025).

The connection between Shariah governance and institutional performance can be theorized in a number of ways, the most prominent of which include the stakeholder theory and the institutional theory. According to the stakeholder theory, organizations that are sensitive to the needs and expectations of their stakeholders, such as customers, regulators, and religious authorities have high chances of realizing long-term success. Effective Shariah governance in this perspective is a tool that can be used in aligning organizational goals and the interests of stakeholders to improve legitimacy and performance (Ullah et al., 2023). The institutional theory also indicates that the institutions exist within a larger normative and regulatory context in which they are influenced by its structures and behaviors. In Islamic finance, Shariah compliance is a normative requirement and a regulatory requirement. The more the institutions institutionalize the mechanisms of Shariah governance, the more they will have social legitimacy, less uncertainty and operational efficiency. Therefore, the existence of a full SGF, an independent and authoritative SSB, and a capable SAC can be theorized to have a positive effect on institutional performance because of its ability to promote stakeholder trust, enhance the quality of governance, and strategic innovation (AL-TAWARI, 2020).

There is an increasing literature that has started to examine the connections between Shariah governance and performance, and that has indicated positive correlations. However, such studies are usually narrow in scope or context or methodological rigor. The majority of the available literature focuses on relatively developed Islamic finance markets like Malaysia, Bahrain and the United Arab Emirates whose institutional frameworks and regulatory systems are quite different to those of Pakistan. Also, a lot of the literature is limited to the consideration of individual aspects of Shariah governance, including the SSB, without considering the synergetic impact of the wider governance system (Salaheldeen et al., 2025). Empirical studies that combine the mediating effect of organizational innovation into this relationship are also lacking. The importance of innovation as a key determinant of financial performance is becoming more and more apparent in dynamic and competitive environments. In IFIs, the innovation of new products and processes as well as implementation should be Shariah compliant, and this aspect makes the role of governance bodies even more important. The fact that Shariah governance can promote or inhibit innovation and, consequently, performance is a research area that is relatively unexplored in the Pakistani environment (Kanwal et al., 2023).

The proposed study fills an empirical and theoretical gap in both the literature and practice: although Shariah governance is widely accepted as one of the key pillars of Islamic finance, its practical implementation and the associated impact on the performance of financial institutions in Pakistan are relatively understudied. Insufficient evidence exists regarding how the Shariah governance framework comprising the Shariah governance function (SGF), Shariah supervisory

board (SSB), and Shariah advisory council (SAC) interact and influence organisational outcomes, particularly in an environment characterized by on going regulatory enforcement efforts, variable human capital capabilities, and distinctive market conditions. In addition, the mediating processes that influence the performance of these elements of governance have not been systematically studied hence, policymakers and practitioners are left to flounder in the dark on how to strengthen Islamic finance institutions (IFIs) and make them competitive (Zarrad & Gafsi, 2025). This shortcoming has motivated the current study to conduct a comprehensive analysis of the impact of the elements of Shariah governance on the performance of institutions considering the moderating effect of innovation. Using a wide cross-section of the Islamic financial institutions in Pakistan as a case study, the analysis uses data gathered on 550 employees at managerial level in 22 IFIs to come up with empirically based findings (Issa et al., 2022).

The contributions of the study to the scholarly literature are multiple. First, it offers an integrated and empirically sound study of Shariah governance in a developing-country environment. The study presents a more refined view of the effectiveness of governance than the previous studies because it evaluates the SGF, SSB, and SAC and their joint effects on performance. Second, it adds organisational innovation as a mediating variable and thus expands on the existing models and explains how the mechanisms of governance influence performance. Third, the research has a significant practical implication on regulators, policymakers, and industry practitioners. Regulatory organizations can use the findings to improve and create guidance that would boost compliance and performance (Mishra & Kumar, 2023). The results can be used by IFI management to organize and mobilise governance bodies in a better manner, which will lead to innovation and realization of competitive advantage. Customers and investors, in their turn, will enjoy the evidence that strong Shariah governance is not only a religious requirement but also a source of institutional excellence and long-term sustainability (Alam & Miah, 2024).

Both credibility and generalizability are reinforced by methodological rigour. The sampling procedure used was stratified random sampling where a sample size of 550 employees in the managerial levels of 22 Islamic financial institutions was achieved and was representative and diverse. The use of a structured questionnaire with validated scales increased the reliability, and the analysis was done using both SPSS and PLS-SEM, which allowed performing construct validation, regression modelling, and mediation testing. This multi-method allowed a thorough analysis of difficult interrelations and provided empirical evidence that could be used to test theoretical propositions (Samadhiya et al., 2024). Moreover, the research dovetails with the current corporate governance debate that puts the emphasis on intangible resources such as trust, legitimacy, and innovation as determinants of organisational performance. The context of Shariah governance in this larger framework increases its applicability beyond compliance to the strategy management and organisational behaviour (Hidayati et al., 2024).

Finally, the research addresses an immediate academic and practitioner demand of empirical and theoretical understanding of the role of Shariah governance in Islamic finance, especially in Pakistan. It provides an all-inclusive framework by combining governance structures, innovation dynamics and performance metrics to extend knowledge and policy formulation. As

one would expect, the results are expected to help in the design of governance models that will support the sustainable growth of Islamic finance in Pakistan and elsewhere (Mahomed & Saba, 2024). With the industry pursuing global expansion, a balance between religious beliefs and organisational excellence is becoming even more important. The present work will make a well-timed and serious contribution to that effort, framing Shariah governance as a strategic resource in an emerging financial services environment.

## **2.0 Literature Review**

The paper is informed by the stakeholder theory and institutional theory which together form a robust framework of examining the impact of Shariah governance on institutional performance in Islamic financial institutions (IFIs). The stakeholder theory argues that organisational legitimacy and performance depends on the satisfaction of stakeholder expectations, which include clients, regulators, shareholders and religious authorities. Shariah compliance in Islamic finance is not a mere statutory requirement, but it is an important expectation of every category of stakeholders (Mohammed, 2022). As a result, strong Shariah governance acts as a system whereby institutional practices can be aligned with stakeholder values, and thus, trust, credibility, and improved performance outcomes are achieved. The institutional theory contributes analytical depth to the extent that it shows how the organisational behaviour is influenced by the social norms, rules, and expectations incorporated in the institutional environment (Fogaça et al., 2022). Because IFIs operate within dual regulatory regimes namely, financial oversight and Islamic legal doctrine formal governance structures such as the Shariah Governance Framework (SGF), the Shariah Supervisory Board (SSB), and the Shariah Advisory Committee (SAC) may be interpreted as institutional responses designed to secure legitimacy and mitigate uncertainty within complex and faith-sensitive financial arenas. These theoretical perspectives combined suggest that the complete Shariah governance not only satisfies the ethical requirements but also organisational goals, i.e., enhanced performance in terms of legitimacy, stakeholder satisfaction, and strategic coherence (Ali et al., 2022).

The empirical literature has also been questioning the performance implications of Shariah governance structures, but the available body of literature is skewed towards studies based in jurisdictions that have developed an Islamic finance sector (e.g. Malaysia, Bahrain, and the United Arab Emirates). The results that have been found consistently point to the fact that the existence and quality of an SSB has a positive impact on both financial measures and operational performance (Organization, 2022). An independent, competent, and widely engaged board in the process of strategic decision-making is associated with reduced compliance risks, increased credibility and customer confidence, which underpins better performance. Research also observes that the regularity of SSB meetings and the extent of its participation is a positive predictor of a variety of financial measures (Ekram, 2021). Lastly, research proves that the professionalism and inter-disciplinary nature of SSB members enhances governance performance. Institutions with people who have both religious and financial knowledge are in a better position to balance between Shariah compliance and financial innovation so that they can be able to provide responsive, compliant products yet be competitive (Uddin et al., 2024).

In addition to the SSB, researchers have started to question the wider SGF. Initial findings suggest that a clear framework, which includes policy, controls, reporting and well defined roles, institutionalises Shariah compliance and makes it part of organisational routines. These structural processes increase transparency, accountability, minimize inefficiency of operations, and support strategic alignment among departments. In addition, the management internalizes the Shariah principles and thus establishing an ethical culture that supports long-term performance (Rahmat et al., 2024). Organizations that have consistent structures often perform better since they do not have reputational risk, they attract ethically minded investors and customers and they are consistent in Shariah decision making- which is especially important in cross-jurisdictional and multi-product businesses.

The relatively low level of interest given to the SAC notwithstanding, new evidence points to its relevance as a supplementary governance institution that strengthens institutional performance. The SACs, who frequently deal with SSBs, provide specialist skills in product development, structuring of complex contracts and changing Shariah standards. The institutions which utilize this expertise efficiently are in a better position to introduce new Shariah compliant instruments, thus becoming more competitive (Abd. Wahab et al., 2023). The performance is also reinforced by the educational mandate of SACs which spreads the knowledge of Shariah within the organisation, so that all the personnel regardless of the level of hierarchy in the organisation are aware of the principles behind their work. This capacity-building role indirectly allows the institutional alignment with strategic and ethical goals (Sarr, 2021).

Recent researches have also questioned the mediating effect of organisational innovation in the relationship between Shariah governance and performance. Innovation is no longer optional in the modern financial environment, it is a necessity of sustainability. The Islamic banks have to be innovative and operate within the Shariah restrictions. Good Shariah governance minimizes ambiguity of interpretation, provides clear directions and promotes ethical experimentations (Hasan & Hasan, 2020). The results suggest that the institutions that are governed within the frameworks of high strength participate more actively in innovative activities, namely, product development, digitalization of Shariah-compliant services, and fintech use. When these innovations are rooted in strict Shariah supervision, they do not only meet the needs of the clients but also unlock new market segments, cut-down expenses, and enhance the service delivery hence strengthening the performance of the institution (Kapyshev, 2024).

Although there has been significant advancement in the literature on Shariah, there has been a gap in the literature that still remains unfilled, with regard to the Pakistani context. Empirical studies of Shariah governance are biased toward those jurisdictions that have centralized Shariah institutions and fairly standardized interpretations of Islamic law (Yilmaz, 2024). In comparison, the Islamic finance industry in Pakistan is marked by a wide range of interpretations, uneven enforcement of regulation and inconsistent maturity of institutions. This makes it difficult to generalize other context findings.

Furthermore, few studies integrate the three core components of Shariah governance the Shariah Governance Framework (SGF), the Shariah Supervisory Board (SSB), and the Shariah

Advisory Committee (SAC) in a single framework. Most of the analysis focuses on a single element thus disregarding the synergistic effects which occur when the components are used together (Guo et al., 2023).

The second gap is that innovation is a mediating factor in the Shariah-performance nexus that has received little attention. Even though the issue of innovation in traditional finance has been widely analyzed, its relationship with Islamic governance systems has been under-theorized and poorly empirically explored. This dynamic is particularly worthy of a rigorous exploration in Pakistan where financial innovation is vital in expanding financial inclusion and maintaining competitiveness in a digital economy (Sadiq et al., 2023).

More general questions concerning the practical consequences of Shariah governance on performance are also posed by the prevalence of multiple interpretations of the Islamic law in Pakistan: although normative significance is widely accepted, little empirical evidence exists, especially considering the regulatory, cultural, and institutional differences with more established Islamic finance jurisdictions. Such uncertainties limit evidence-based decision-making by managers and policymakers who want to achieve the right balance between Shariah compliance, financial performance, and market innovation (Fahamsyah et al., 2023).

In order to fill these gaps, the current study proposes a conceptual model that examines how the three main components of the Shariah governance system, including SGF, SSB, and SAC, influence the performance of Islamic financial institutions in Pakistan. Innovation has been included as a mediating factor to determine the influence of governance mechanisms on strategic orientation and operational implementation (Iqbal et al., 2021).

Based on the above theoretical and empirical literature, the following hypotheses were developed Shariah Governance Framework has a positive influence on institutional performance. The Shariah Supervisory Board has a significant positive effect on institutional performance. The Shariah Advisory Committee positively influences the institutional performance in a significant way (Quttainah & BenSaid, 2025). Organizational innovation mediates the linkage between every component of Shariah governance and performance of the institution.

The empirical study uses the data obtained on a wide range of Islamic financial institutions in Pakistan, and it is expected that it will not only enhance the theoretical knowledge but also provide practical advice on how to enhance Shariah governance. It is hoped that the proposed contribution will be a refined framework that recognizes the complexity of Shariah governance and its multidimensional impact on institutional performance in the light of the strategic ability of innovation- an aspect of interest in emerging Islamic finance markets where the balance between compliance and performance is paramount in the face of various regulations and constant institutional change.

### **3.0 Methodology**

This study employs a quantitative design with the explicit aim of empirically investigating the influence of the Shariah Governance Framework, the Shariah Supervisory Board, and the Shariah Advisory Committee on the performance of Islamic Financial Institutions in Pakistan. The choice of quantitative method is supported by the fact that the purpose of the study is to test the

hypothesized relationships between well-defined constructs based on measurable data. The analysis is conducted in the positivist research philosophy that assumes that social phenomena like governance and institutional performance can be observed, measured, and subjected to objective statistical analysis. Positivism thus offers a suitable epistemological basis of the current study, as it focuses on empirical knowledge, replicability, and hypothesis testing, which are essential conditions in the production of reliable and generalizable results in the area of Islamic finance.

The sample population is the managerial-level staffs who are employed in Islamic Financial Institutions in Pakistan. This group consists of complete Islamic banks, Takaful firms, Modarabas and Islamic windows of conventional banks. The managerial employees are considered to be especially appropriate respondents since their strategic roles and operational expertise put them in an informed position to provide comments on the governance structures and performance dynamics of their organisations. The non-homogenous character of the growing Islamic finance sector in Pakistan requires the incorporation of this diversity in the forms of institutions and the practices of governance in order to achieve the strength of the eventual results.

To select a sample of 550 respondents, a stratified random sampling strategy was used to select this population. The stratification was done in terms of type of institution and geographical location to ensure wide representation of different types of Islamic financial institutions and geographical areas of the nation. The sampling method increases the external validity of the study by taking into consideration the contextual variation in the Pakistani Islamic finance ecosystem. The sample thus obtained meets the minimum requirements of structural equation modelling (SEM) especially in terms of structural equation models that have multiple latent constructs hence facilitating the generation of stable and reliable parameter estimates.

Data were collected via a structured survey questionnaire specifically designed to capture the constructs of interest: the Shariah Governance Framework, the Shariah Supervisory Board, the Shariah Advisory Committee, organisational innovation, and institutional performance. The items used in the measurement were based on previous research in order to have content validity, and at the same time adapt to the contextual specifics of Islamic finance in Pakistan. A five-point Likert scale was used to measure all the items with a strongly disagree to strongly agree scale. The questionnaire was administered in physical and digital form using Google Forms to maximise the participation of the respondents. This mixed method of data-collection allowed the coverage of a wide range of urban and rural populations, thus involving both the conventional and the technologically interested respondents.

The analytical processes were done in two phases. To start with, the measurement model was tested in terms of reliability and validity, including composite reliability, convergent validity in terms of Average Variance Extracted (AVE), and discriminant validity using Fornell-Larcker criterion. Second, structural model was tested to establish the importance of direct paths and mediating effects. To determine the statistical significance of the path coefficients, 5,000 resamples of bootstrapping were used.

The findings indicate that the Shariah Governance Framework, the Shariah Supervisory Board, and the Shariah Advisory Committee are positively associated with institutional



performance, thereby confirming Hypotheses 1-3. In addition, the study documents evidence suggesting that the Shariah Governance Framework and the Shariah Supervisory Board mediate the relation between the Shariah Advisory Committee and institutional performance, yielding partial support for Hypothesis 4. The results, thus, show that effective governance systems are part and parcel of success of Islamic Financial Institutions in Pakistan.

The research process was done with ethical considerations. The survey was not mandatory and all participants were offered an informed consent form, which explained the aim of the study, the character of their involvement, and the confidentiality of their answers. Personal identifiers were avoided and all data were stored in a secure manner and used exclusively to academic ends. The research was in compliance with the ethical principles that were set by the institutional review board of the academic institution where the researcher was affiliated to and it was approved before data collection. These were the safeguards put in place to safeguard the rights of the participants and also to ensure that the research was conducted ethically.

A strict methodological design allows the study to obtain the reliability and validity of its results and adds to the existing knowledge on Shariah governance in the distinctive institutional environment of the Islamic financial sector in Pakistan. The selected methodology does not only comply with the purpose of the study but also increases its ability to provide practitioners and policymakers with empirically-based recommendations.

## 4.0 Findings and Results

### 4.1 Measurement Model

**Table 4.1 Reliability Analysis**

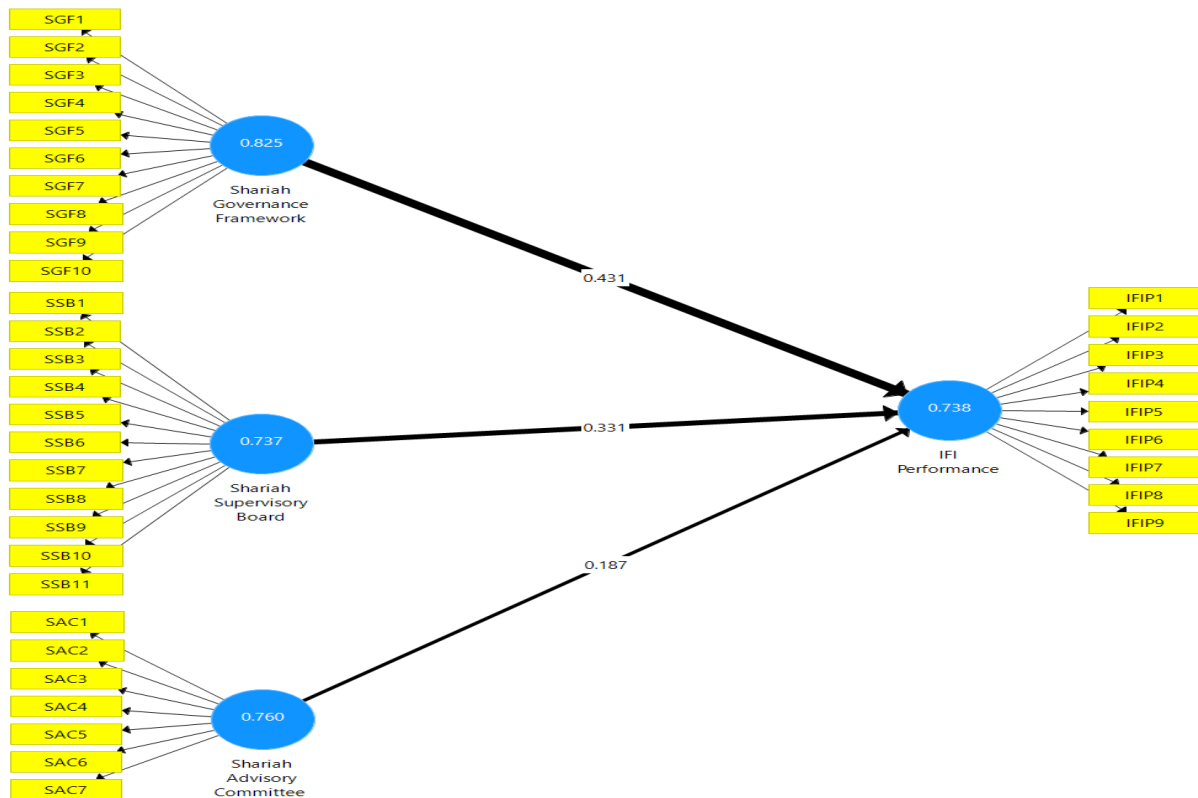
	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
IFI Performance	0.7379	0.7383	0.8105	0.5264
Shariah Advisory Committee	0.7598	0.7616	0.8259	0.5112
Shariah Governance Framework	0.8251	0.8546	0.8652	0.5079
Shariah Supervisory Board	0.7375	0.7692	0.7942	0.5884

Values of Cronbach's Alpha show that all constructs have values of above 0.7, which is acceptable values with regards to internal consistency of values. The values of the rho\_A are also higher indicating good reliability. The construct reliability of the variables is high with composite reliability values (greater than 0.7). All the AVEs values are more than 0.5 and have satisfied the requirements of convergent validity ranging between 0.5079 and 0.5884.

**Table 4.2 Validity Analysis (HTMT)**

	IFI Performance	Shariah Advisory Committee	Shariah Governance Framework	Shariah Supervisory Board
IFI Performance				
Shariah Advisory Committee	0.6409			
Shariah Governance Framework	0.7533	0.6648		
Shariah Supervisory Board	0.6595	0.4522	0.4178	

The relationship between the constructs is different based on the correlation matrix. Prone to the best correlation is IFI Performance and Shariah Governance Framework (0.7533), which implies that it is a strong association. In the case of Shariah Advisory Committee and Shariah Supervisory Board, the Performance of the IFI correlates moderately (0.6409 and 0.6595 respectively). The second (Shariah Advisory Committee and Shariah Governance Framework), the third (Shariah Advisory Committee and Shariah Supervisory Board) and last (Shariah Governance Framework and Shariah Supervisory Board) relationship are all moderately weak to weak with the weakest being the last.

**Figure 4.1: Measurement Model**

## 4.2 Structural Equational Model

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Shariah Advisory Committee -> IFI Performance	0.1871	0.1926	0.0294	6.3642	0.000
Shariah Governance Framework -> IFI Performance	0.4312	0.4284	0.035	12.3336	0.000
Shariah Supervisory Board -> IFI Performance	0.331	0.3326	0.0257	12.8997	0.000

As results indicate, the three constructs have a statistically significant positive influence on IFI Performance. Path coefficient with T- statistic and p-value for the Shariah Advisory Committee is 0.1871 which implies that the relationship is moderately significant. The strongest influence can be seen on the Shariah Governance Framework with a path coefficient of 0.4312, a T-statistic of 12.3336 and a p-value of 0.000. In a similar way, the path coefficient of Shariah Supervisory Board is 0.331 with T-statistic 12.8997 and p-value of 0.000 indicating that the effect is significant and positive. The p-values of all the three relationships are much lower than 0.05.

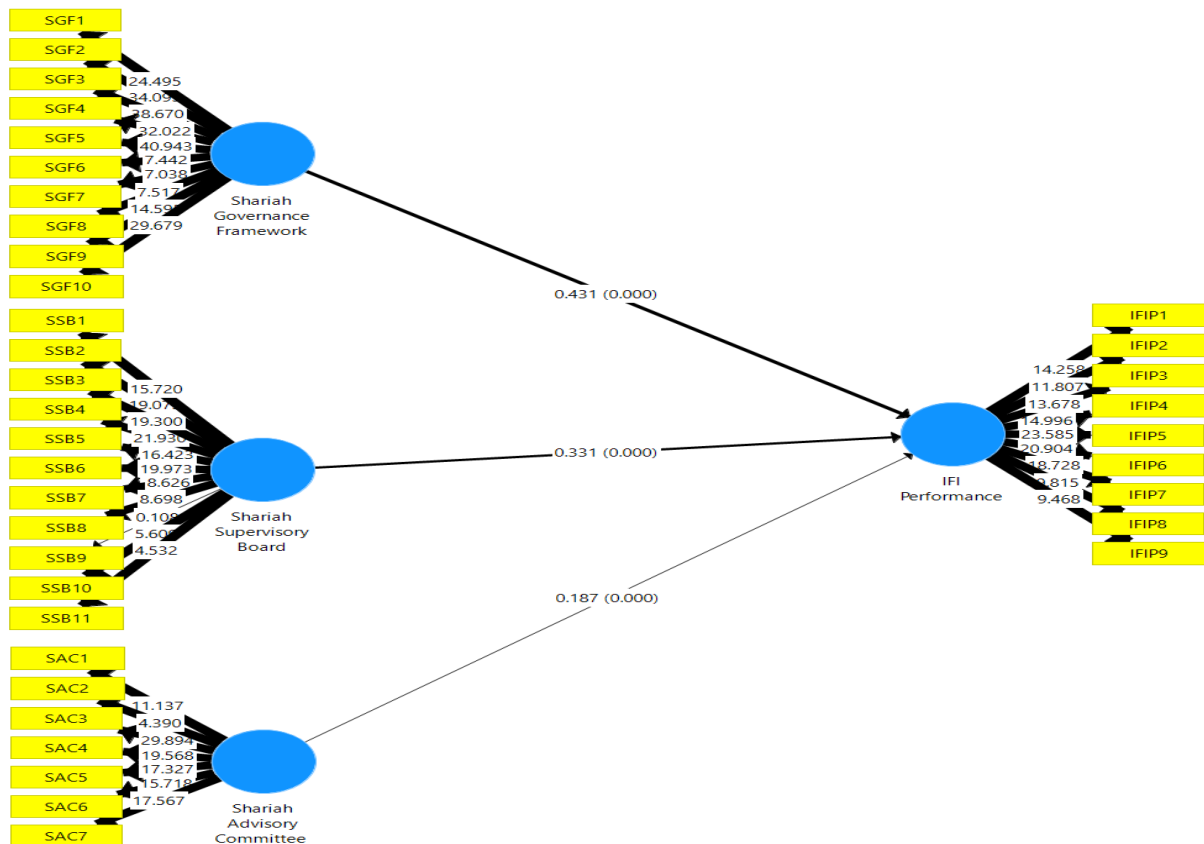


Figure 4.2 Structural Equational Model

## 5.0 Discussion and Conclusion

The current research establishes the essential importance of Shariah governance systems in enhancing the performance of the Islamic Financial Institutions (IFIs) in Pakistan. Empirical findings show that all three pillars, namely Shariah Governance Framework (SGF), Shariah Supervisory Board (SSB) and Shariah Advisory Committee (SAC) have a significant and positive influence on institutional performance. These results support theoretical assumptions based on both the stakeholder theory and institutional theory, which assume that the commitment to the formally codified governance structures that are in line with stakeholder values enhances legitimacy, stakeholder trust, and, consequently, organisational performance. The investigation thus shows that Pakistani IFIs enjoy a strong Shariah governance not only in fulfilling the religious and regulatory requirements but also in achieving strategic and operational effectiveness.

In the case of the SGF, the research accredits its positive effect on the operational performance to the ability of the structure to promote consistency, transparency, and accountability within the institution. By spelling out clear policies, defining clear roles, and having systematic procedures, the SGF gives the IFIs the power to make Shariah a reality. This rational structure reduces the ambiguity of decisions and moves the compliance with Shariah to the centre of the strategic management rather than a marginal requirement. The discussion reveals that companies with extensive SGFs have increased internal consistency, which makes the process of decision-making more efficient and reduces the risks associated with compliance. Also, the results indicate that a good SGF counterbalances reputational risks and enhances institutional resilience through entrenching Shariah values at the heart of corporate governance.

The Shariah Supervisory Board also becomes a crucially important factor that defines the performance of an institution. The effectiveness and active participation of the SSB is observed to increase the credibility and the success of operations and the frequency of meetings, the expertise and diversity of the members, and the level of participation in the product approval and strategic advice are found to be decisive. Such observations highlight that the mandate of the SSB is not limited to compliance, but is a strategic mechanism that balances ethical considerations with financial innovation and market demands, which is particularly relevant in the Pakistani financial environment, which is challenging and dynamic.

The role of the Shariah Advisory Committee, which is less commonly explored, is also proven to be as positive and significant. SACs provide technical experience in structuring products and in solving complex juristic problems, thus increasing the innovation capability and the Shariah soundness of the institution. Their educative and internal advocacy roles also increase organisational Shariah literacy and entrench compliance with the corporate culture, which in turn enables ethical innovation and promotes sustainable performance results.

The most enlightening comment is probably on the mediating role of organisational innovation, which mediates the connection between Shariah governance and institutional performance. The analysis reveals that innovation partly mediates the relationship, which means that Shariah governance does not only directly affect performance but also indirectly through the innovation promotion. This observation is interesting, because it reveals the ability of Shariah

government to foster change and adaptation. The ability to engage in responsible innovation within the boundaries of Shariah is one of the factors that distinguishes IFIs in a world that is dynamic in terms of consumer preferences, technological development and ever-evolving regulations. Clarity, confidence and moral direction therefore offer the best environment to enhance performance through such mechanisms.

Overall, the current study supports the fact that Shariah governance is not merely a system of submission but it is a strategic asset that significantly determines the performance path of Islamic financial institutions (IFIs) in Pakistan. The results reveal that effective governance framework, which is well-articulated, an active supervisory board, and an efficient advisory committee, all help enhance the stability and growth potential of these institutions. The study also explains how governance is converted into organisational performance by showing the mediating role of innovation. As a result, the evidence develops a holistic perspective of the numerous benefits that accrue out of good Shariah governance and suggests that those organizations that invest intentionally in these aspects stand a better chance of achieving sustainable success.

Numerous policy suggestions are based on the empirical findings. First of all, IFIs must focus on the ongoing development and improvement of their Shariah Governance Frameworks to ensure clarity, internal consistency, and operational consistency. Regulators, in particular the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, are also encouraged to provide clearer guidelines and oversight in order to harmonise practices of governance throughout the industry. Second, IFIs would gain through enhancing the composition, independence, and involvement of Shariah Supervisory Boards by choosing members with religious and financial expertise and by involving them actively in strategic discussions. Third, the role of Shariah Advisory Committees must be formalised and expanded to give it an express mandate to assist in product development as well as to enhance organisational capability in Shariah compliance.

The implications of the study to policymakers, industry practitioners, and scholars are enormous. To the regulators, the study highlights the need to have a holistic regulatory approach that embraces the synergistic potential of Shariah-focused bodies instead of viewing them as independent units. Institutional leaders are introduced to a strong case of investing in sound governance structures as a means of achieving compliance and at the same time triggering innovation and long-term value creation. To the researchers, the research provides new avenues of examining the interaction between governance, innovation and performance, especially in the emerging markets with legal pluralism and institutional fragmentation.

To sum up, the research provides more understanding of Shariah governance as a regulatory necessity and a strategic asset in the Islamic financial industry in Pakistan. It combines the theoretical insights with empirical findings to emphasize the importance of sound governance mechanisms in supporting institutions to achieve the twofold goals of ethical integrity and competitive performance. The results provoke a paradigm change in the understanding of Shariah governance, as a fixed regime of compliance to a dynamic capability of organisation that supports institutional excellence in the emerging world of Islamic finance.

**Muhammad Arshad:** Problem Identification and Theoretical Framework

**Kashif Saleem:** Data Analysis, Supervision and Drafting

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The authors declared no potential conflicts of interest in this article's research, authorship, and publication.

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