

Why is Shariah governance framework important for Islamic banks?

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Abstract

Purpose – The purpose of this paper is to explore the question “Why is Shariah Governance Framework (SGF) important for Islamic banks?”

Design/methodology/approach – A semi-structured face-to-face personal interview is used to accomplish the research objectives. This study has collected data from the concerned bodies related to Shariah Governance (SG) from the central bank and Islamic banks of Bangladesh.

Findings – This study states SG as a process of confirming Shariah compliance in the overall functions of the Islamic banks, while Shariah denotes some rules, regulations, guidelines, objectives and directions to enhance accurate functions and activities, which are solely based on Shariah principles. SGF is important for Islamic banks to implement Shariah principles, confirm Shariah compliance and monitor the functions of the banks. Besides, it is needed for a well, efficient, effective, profitable business and higher performance and, finally, to eliminate the confusion among the management, executives, conventional bankers and banks.

Research limitations/implications – This study significantly contributes to the national and global regulatory bodies by providing evidence that why do Islamic banks and financial institutions require a sound SGF. It is recommended that there should be a sound and robust SGF to protect and fulfill the interest, expectations and demands of different stakeholders, which can easily draw their attention, intention and interest.

Originality/value – This is the first research that extends the literature of Islamic banking and SG by highlighting the importance of SGF. This study claims that to be a complete Islamic bank as well as protecting the unique identity from the general banks and corporate governance system, SG manual is required.

Keywords Shariah governance framework, Importance, Qualitative research, Islamic banks

Paper type Research paper



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1. Introduction

Thoroughly focused on moral and ethical outlooks over the 50 years of services around 100 countries, Islamic Financial Institutions (IFIs) have considered a complete equivalent of the contemporary financial system and show their outstanding development all over the world. Its continuous growth has persisted completely over the chaos and application of the recent global financial crisis and has proven its beautiful moral application (Zeti, 2009), and this is based on its ethical grounds. Based on the Saudi Gazette, the world Islamic finance sector has an estimated value of \$3.295tn in 2018, reflecting the fast progress of 14.6% compared to 2017, which demonstrates its success stories as the fastest growing industry. Though, the capitalist and globalization counterparties play an obstructing role to challenge Islamic finance and taking advantage of accounting and finance (Kamla, 2009). The dominance of Islamic finance is also marked by its achievement to humanity (Platonova *et al.*, 2016); and financial development (Gheeraert and Weill, 2015). Islamic finance is the backbone of the Islamic economic system (Mushafiq and Sehar, 2021). Specifically, the quick progress of IFIs has also emphasized the necessity for Islamic finance policies to construct a suitable Shariah Governance Framework (SGF) to be used nationwide as well as serving global financial structure (Archer *et al.*, 2010). Abu-Tapanjeh (2009) also states that without genuine moral and ethical elements, the Islamic financial system cannot be a complete and comprehensive governance system.

Nevertheless, the current Corporate Governance (CG) does not fulfill the demand of the IFIs governance structure because of the absence of Shariah principles in the overall business functions, which contribute to the importance of SGF. Therefore, it is significant for IFIs to have a robust SGF for enhancing the confidence of the customers in the overall activities. IFIs should accomplish the basis of social rules and norms in specific nations and thus depicting legitimacy and guarantee Shariah compliance among the customers and numerous stakeholders (Banaga *et al.*, 1994; Grais and Pellegrini, 2006; Tabash *et al.*, 2020). The recent global financial crisis in 2008 has brought Islamic finance to the attention of investors who were dissatisfied with conventional banks (Johnes *et al.*, 2014). Islamic finance is portrayed as a specific kind of finance that requires different Shariah Governance (SG) because the guidelines are different from the conventional CG practices and structures (Abu-Tapanjeh, 2009). Because of the obligation of Shariah principles, IFIs must ensure all activities are based on Shariah guidelines. The lack of such a governance framework may spark conflicts that may lead to financial and non-financial losses. In the global Islamic finance market, the fiascos of “Islamic Bank of South Africa,” “Ihlas Finance in Turkey” and the “Islamic Investment Companies of Egypt” as well as the commercial losses of “Dubai Islamic Bank” are examples of such failures. In this case, the most significant issues are the damaging effect on the image of Islamic banks and the loss of customers’ trust (Zada *et al.*, 2017). Hence, the SG has been developed by diverse regulators and countries for monitoring the functions of IFIs and minimizing the disputes among the various parties.

However, the establishment of SSB in Islamic banks is relatively new. The focus on SG features of IFIs is also related to other Islamic organizations such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Thus, the voluntary regulatory bodies such as IFSB and AAOIFI have provided the importance of the SGF but it is still unexplored to furnish the empirical evidence. Therefore, this study attempts to explore the importance of SGF for Islamic banks through semi-structured interviews with 17 respondents comprising diversified categories of designation such as regulators, Shariah Supervisory Board (SSB) members, Shariah department executives and Shariah experts from Islamic banks and regulators in Bangladesh. The study explores the question “why SGF is important for Islamic banks?”

The personal interviews questions outline the significant of SG to ensure Shariah-compliant in the product development, instructions, overall process, practices and management of IFIs. It is also crucial to improve transparency and disclosure and to strengthen the professionalism and image of IFIs. In addition, without a sound SGF, Islamic banks cannot accomplish their functions effectively and efficiently. Finally, a sound and complete SGF is required for keeping its Islamic identity and assisting SSB and Shariah department officers in performing their functions.

Based on our knowledge, there is no prior study that has empirically discovered the importance of SGF in Islamic banks. From this standpoint alone, this is the main contribution of this research. Consequently, a novel dimension will be added to the literature in several ways. First, the study focuses on the importance of SGF in monitoring the Islamic banks which is unexplored in Bangladesh as well as global Islamic banking practices jurisdictions. Second, the knowledge gathered in the research would be used to outline the practical influence of SGF to attract its customers and other stakeholders, which would lead to a high level of financial performance. Thirdly, the Board of Directors (BOD) has the responsibility to provide an effective and efficient CG strategy for the Islamic banks, which will enhance the performance of the banks and Shariah compliance quality. Fourth, this study extends the literature on Islamic banking and finance concerning the importance of SGF which would intensify the confidence of the customers and general people regarding their policy and operational activities as well as ensuring transparency and disclosure in their overall functions. Fifth, the study highlights that a sound SG guideline is important to run the functions of the Islamic banks, protect the benefits of stakeholders, sustainable development and attaining legitimacy from the concerned authorities and society which supports the notions of stakeholder, resource dependence and institutional theory. In conclusion, the implementation of an established SGF will enhance the transparency and disclosure and strengthen the professionalism and image of the Islamic banks.

Section 1 illustrates the introduction, and Section 2 provides literature review concerning Islamic banks and SGF. Section 3 describes an overview of the methodological part which has been implemented in accomplishing the objective of this study. Section 4 illustrates the overall discussions and findings of the study. Section 2 offers the conclusions of the research and highlights policy implications and directions for future research.

2. Literature review

SG principles of Islamic finance put great importance on robust CG standards and structures, transparency, information disclosure and strict devotion to those principles. Consequently, [Choudhury and Hoque \(2004\)](#) exemplify an instructive SGF for each organization by demonstrating its complete roles, functions, objectives and governing rules considering the epistemology of Tawhid and shura (a joint board of Islamic scholars, Islamic bankers and lawyers). The SG of Islamic banks is diversified and differed from general CG, as it provides a specific governance structure under the umbrella of SSB ([Safieddine, 2009](#); [Quttainah et al., 2013](#)). The SGF differentiates itself from conventional CG owing to the additional inclusion of Shariah principles, Shariah supervisory board and Shariah officers. Concerning this, the Organisation for Economic Co-operation and Development (OECD) provided six principles for a sound CG framework. The frameworks are:

- (1) ensuring the basis for an effective CG framework;
- (2) the rights of shareholders and key ownership functions;
- (3) the equitable treatment of shareholders;
- (4) the role of stakeholders in CG;

- (5) disclosure and transparency; and
- (6) the responsibilities of the BOD.

In addition, IFIs need to form an additional Shariah Department with some units to ensure Shariah compliance within their functions and activities. Table 1 illustrates the difference between the CG of typical financial institutions and IFIs.

However, SG is important and essential for the IFIs as conventional CG regulates compliance and practices of the institutions. Additionally, IFIs have to observe Shariah values in all the functions besides the SG guidelines. Therefore, the lack of a SGF may cause Shariah violations in IFIs which will create financial and non-financial losses. Again, the absence of comprehensive SGF might minimize the public faith in the validity and legitimacy of the overall functions and the products (Chapra and Ahmed, 2002; Hasan, 2011). The most significant issues are the damage of the institutional image and minimizing customers' faith toward the Islamic banks (Zada et al., 2017). Nevertheless, Ginena and Hamid (2015) state SG is an overall process of implementing Shariah principles in the functions and transactions of IFIs. The SGF includes guidelines for several internal bodies such as SSB, BOD, management, Shariah division's executives and Shariah auditors. Besides, IFSB in 2009 has defined SG as a set of overall mechanisms by which IFIs assure Shariah compliance from its beginning to the end. In this case, Hasan (2011) assumes that the ex-ante and ex-post-facto process of Shariah compliance increases the trustworthiness of IFIs. Consequently, the credibility of IFIs regarding its accountability and reliability may be built over effective SGF (Hidayah, 2014).

The global SG practices in IFIs vary from country to country because of the diversified legal and regulatory rules pertaining to the specific government procedures in the activities of Islamic banking and finance (Hassan, 2011). Generally, SG practices in the world can be classified into three diversified types of models, i.e. centralized, *laissez-faire* and hybrid (Noordin and Kassim, 2019). In the centralized structure, a central Shariah supervisory board is formed in the central bank which is responsible for issuing fatwas centrally concerning the Islamic banking issues, providing SG guidelines for IFIs, appointing institutional SSB and instructing the central bank at Shariah matters (AAOIFI, 2017; Noordin and Kassim, 2019). This kind of SG model is considered as more comprehensive and robust Shariah guidelines compared to the other structures and practiced by Malaysia, Sudan, Brunei, Indonesia and Iran. Besides, the *laissez-faire* or self-regulated approach which is also known as a decentralized SG model is developed by a particular SSB of the IFIs and has less interference by the regulators and market players. In this structure, IFIs and institutional SSB ensure Shariah compliance in their overall business functions, products and services in their ways and process. This self-developed procedure as an absence of central regulatory authority may create questions about Shariah compliance

Functions	Typical financial institutions	Additions in IIFS
Governance Control	Board of directors Internal auditor External auditor	Shariah supervisory board Internal Shariah Review/audit Unit/ department (ISRU) EXTERNAL Shariah review
Compliance	Regulatory and financial compliance officers, unit or department	Internal Shariah Compliance Unit/ department (ISCU)

Table 1.
Additional functions
in institutions
offering Islamic
financial services
(IIFS)

Source: IFSB (2009)

quality, services and fatwa resolutions amongst the IFIs because of the diversified understanding and rulings of Shariah principles (Goud *et al.*, 2014). This practice is applied by Gulf Cooperation Council (GCC) countries, for example, Saudi Arabia, Kuwait and Qatar, and non-Islamic countries for instance UK, Germany, France, South Korea, Hong Kong and Japan. Finally, the IFIs in the hybrid structure following nations are required to confirm the compliance of Shariah by itself and need to report toward the central regulatory body about their activities. For example, in the United Arab Emirates, IFIs shall report to the “UAE’s National Council of the Shariah Supervisory Committees of IFIs” for any Shariah compliance concerns (Noordin and Kassim, 2019). In Pakistan, the institutional SSB must observe “fit and proper” criteria and send a report concerning Shariah compliance to the central Shariah authority of the central bank.

2.1 Theoretical framework

In illustrating CG and SG, several theories (such as agency, stewardship, stakeholder and legitimacy theory) have been illustrated in prior research (Al-Nasser Mohammed and Muhammed, 2017; Alam *et al.*, 2020a; Alam and Miah, 2021). In this case, the stakeholder theory illustrates more freedom for management. It enhances the management idea of CG along with shielding the benefit of all concerned stakeholders (Freeman, 1994). Concerning this, SG illustrates the roles, power and functions of all concerned bodies related to the Islamic banks. Meanwhile, the organization is applying the corporate social manner of that particular society to strengthen ethics, compliance and specified rules (Suchman, 1995; Deegan and Unerman, 2006). The ongoing debate illustrates the idea that the organization’s reliability will be questioned if it fails to operate business functions and maintain legitimacy within social behavior (Dowling and Pfeffer, 1975). Besides, institutional legitimacy and reputation are applied to assess an institution in a societal structure (Deephouse and Carter, 2005; Deegan and Unerman, 2006). This viewpoint allows us to achieve that legitimacy as the main point of an enormously developed theoretical tool dealing with the pressures (regulative, normative and cognitive) (Suchman, 1995).

The resource dependence theory demonstrates how the external resources of a corporation affect its governing procedures. The obtaining of external resources is a significant belief of any organization for tactical and strategic management. This theory emphasizes on corporation requirements to be used as the resources from another source in the setting and which describes the insufficiency resources can enhance the company to follow new structures that use different resources (Pfeffer and Salancik, 1978; Sherer and Lee, 2002; Samuel *et al.*, 2019; Tabash *et al.*, 2020). Therefore, this theory has been applied in illustrating actions of the corporation, the appointment of BOD and executives, agreement structure, business strategies and linkage with the external corporate interactions (Wu and Dong, 2020; Jubilee *et al.*, 2018; Sharif and Yeoh, 2014).

However, the resource dependence viewpoint allows a broader acceptance of how resource dependencies illustrate governance mechanisms within a robust governance structure and functions of the BOD and management. The advocatory notion of this theory sets BOD as a main institutional mechanism that arranges effective resources for the corporation, reduces transaction costs in overseeing the external connections and protects the firm from environmental uncertainties (Lynall *et al.*, 2003). In addition, the BOD as a body will minimize the limitations of individual board members regarding the corporate competence over a set of policymaking structures that successively improves better corporate tactical resolutions and actions (Ruigrok *et al.*, 2006). Consequently, the efficiency of a SG system would suggest the appropriate mechanisms of Shariah compliance quality in its functions. In undertaking the function of Islamic banking, SSB as an independent

authoritative body accomplishes its roles by guiding, supervising, revising and managing the complete functions along with the BOD and management. Indeed, this operational setting enhances the trust of IFIs in the views of its customers and shareholders; thus, improve on their Shariah characteristics. Haridan, Hassan and Karbhari (2018) illustrate that Shariah compliance quality delivered by SSBs enhances Islamic finance credibility.

Institutional theory highlights the process, structure and institutional setting of an institution by narrating that the governance structure of an institution is a mixture of resource dependence and mechanical demands as well as influenced by institutional forces, rational myths, knowledge legitimized over the system and by the professionals, public and regulators (Meyer and Rowan, 1977; Meyer and Scott, 1983; DiMaggio and Powell, 1983). Organizational initiatives and arrangements are thought of as either replication of or reply to rules, philosophies and agreements included in the broader setting. In general, these allow for the permanent structure of social values and established practices denoted as institutions (Powell, 2007). Hence, an institutional background is established through a social order over religion, regulations, laws, politics and work, and it affects all of these extents over a constant procedure (Scott, 1987).

Though the foundation of institutional theory has grounded in the educational institutions (Meyer and Rowan, 1977; Meyer and Scott, 1983) and organizational formation (DiMaggio and Powell, 1983), it has grown the interest considerably after 2000 in the areas of CG policies, accounting rules, divergence policies in large companies, European Union expansion, policies of public transaction in the US and human rights regulation (Powell, 2005). Regarding SG, this has moved from the individual concept to the broader notion where the SG system is deeply inclined by a variety of independent forces. The institutional viewpoint on SG emphasizes a requirement on legal and institutional contexts and effective SG practices are thus exceedingly reliant on the institutional setting in which the institutions and particular stakeholders are embedded (Karbhari *et al.*, 2020).

3. Methodology

In accomplishing the research objective, a qualitative research method is applied to understand how and why this SGF is important (Cooper and Schindler, 2011). Qualitative research is “an array of interpretive techniques which seek to describe, decode, translate and come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world” (Cooper and Schindler, 2011, p. 162). “The qualitative research and case study could explore the answers of “what” questions along with the ‘why’ and ‘how’ more broadly, descriptively, and extensively about a phenomenon” (Alam, 2020, p. 1). The study has implemented qualitative research instead of quantitative research because the researchers intend to discover the answer to “how” questions rather than “how many” questions (Silverman, 2010, p. 11). Therefore, the case study technique is used to explore the importance of SGF in Islamic banks in Bangladesh. The important characteristics of the case study are the attention on the questions of “how” and “why” (Myers, 2009), and it is suitable for comprehensive and exploratory investigations of SG matters (Alam, 2020). Additionally, a case study can emphasize on the process, the individual or group of people’s behavior of a particular institution and/or the system of actions in which the behavior happens (Stake, 2005). Besides, the researcher cannot influence the actual behavior of the respondents which has more value in qualitative research (Yin, 2009).

A semi-structured interview tactic has been chosen for data collection and a broader understanding of the research issue. Semi-structured interviews signify interviewer postures a few prearranged questions but have substantial flexibility in the supplement

questions (Dane, 1990). This interview is chosen for this investigation is owing to its flexibility which allows the researchers to explore in-depth the respondents' points of view which may result in a broader range of details in the complete assembly of the answers (Dane, 1990). This process is suitable for the respondents in delivering their opinions based on their experiences and knowledge (Saunders *et al.*, 2007). This interview method is dissimilar from the other method because the respondents are allowed to express their perception of the given information or phenomenon (Berg and Lune, 2007). In addition, this method is significant for clarifying and understanding the events, and way of behaviors and provide a better situation of the respondents (Bryman and Bell, 2003).

A face-to-face interview is conducted by the researchers for the comfort of clarifying and understanding the issues of the research. A face-to-face interview assists in gathering more comprehensive responses from the participants. This procedure helps the participants in understanding the questions and ensures the independence of the participants in delivering their opinions which is significant in qualitative research (Gillham, 2000). Since the selected participants for the interviews are regulators, SSB members, Shariah department executives, and finally, the field experts from Bangladesh, they are directly related to SG functions in Islamic banks. In general, 17 respondents have been interviewed for accomplishing the research study (Alam, 2020; Alam *et al.*, 2020a, 2020b, 2020c, 2020d, 2020e; Tabash *et al.*, 2020) and they are symbolically coded for instance Regulatory Aspects (RA) for regulators, Shariah Practitioners (SP) for SSB members and Shariah department executives, and Experts (E) for field experts concerning the Islamic banking and SG knowledge (Alam *et al.*, 2020a; b; c; d, e). Table 2 shows the background information of the interviewees.

Moreover, a research strategy is a judgment that associates the research objectives and research questions to the procedures of data gathering, data analysis and the outcomes from the gathered data (Yin, 2009; Rowley, 2002). The NVivo has been selected to analyze the broad transcriptions and other documents as well as for better data analysis (Alam, 2020; Gibbs, 2002). This NVivo software is applied in initial coding, categorizing and theme development from the data (Strauss, 1987; Alam, 2020). Additionally, it permits a green data management process instead of a paper and pencil technique (Alam, 2020).

4. Discussions of the findings

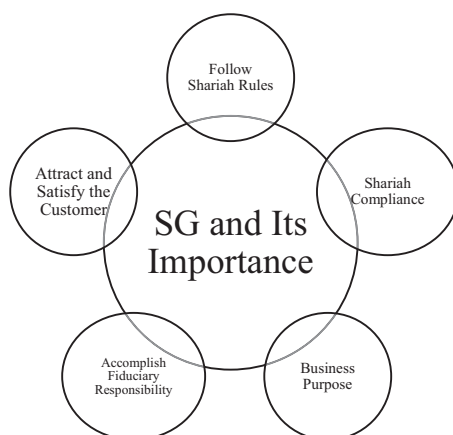
The NVivo data analysis of interviews has generated five types of categories of the SG and its importance, such as follow Shariah rules, Shariah compliance, business purpose, accomplish fiduciary responsibilities and attract and satisfy the customers which are discussed later. Figure 1 shows the theme and categories identified from NVivo.

One of the respondents explained SG is like "SG means Shariah compliance in Islamic banking transactions" [E#3]. This definition describes that SG illustrates the process of ensuring Shariah compliance. However, the SG is significant for the Islamic banks to

Table 2.
Background
information of the
interviewees

SL	Participants cluster	Respondents number	Organization
1	Regulators	3	Central bank
2	Shariah practitioners	9	Islamic banks
3	Experts	5	Industry experts, professionals and researchers
Total		17	

Source: Developed by Authors



Source: Developed by Authors

Figure 1.
Theme of SG and its
importance

implement Shariah rules and regulations in ascertaining the overall business activities. As the Muslims have a soft corner regarding the Shariah, so the Islamic banks need to comply with the Shariah. As Islamic banks have a unique feature compare to conventional banks and the Shariah isolated itself; thus, SG is important to maintain separate isomorphism. Otherwise, there is no difference between conventional and Islamic banks. Therefore, previous literature outlined that the presence of SSB and Shariah compliance make the SG different from the traditional CG where the main responsibilities of the SSB are to implement Shariah principles and ensure Shariah compliance in the overall functions of IFIs (Grais and Pellegrini, 2006). So, from the religious, business and applications point of view, SG is essential to confirm proper Shariah compliance. Additionally, Shariah compliance is a significant component of good governance.

As we (Islamic banks) are operating Islamic banking or Shariah-based banking for this the Shariah governance is must otherwise, conventional banking and Shariah banking will be similar" [SP#5]. "Shariah application or complaints is the unique feature for Islamic banking or Islamic financial institutions. They must ensure the applications of SG in each of their activities or services. So, without these applications, there is no difference between Islamic banks and conventional banks" [E#4]. "There is a large number of issues it is regarding good governance. Shariah compliance is also a part of good governance. [E#4]

However, the respondents (E#1; SP#2; SP#5) opined that the SG system plays an essential role to ensure the suitable practices of Islamic rules and regulations, ensure Shariah compliance in the instruments, products, operations, practices, and management of IFIs and without this guideline, it is impossible to ensure Shariah compliance. Consequently, it becomes incumbent for IFIs to establish governance structures to provide confidence that the organizations' activities are fully compatible with the values and customs of the society in which they serve and, in so doing, provide legitimacy and confidence to customers and the broad spectrum of stakeholders (Banaga *et al.*, 1994; Grais and Pellegrini, 2006; Tabash *et al.*, 2020). The adoption of sound Shariah guidelines ensures that an IFI manages its operational activities properly to ensure Shariah compliance and protect the interest of all concerned stakeholders (Alam *et al.*, 2019). In addition, a sound corporate governance could be important for conventional financial institutions to ensure the benefit of diverse stakeholders as it increases discretion and scope for abuse (Becht, Bolton,

Röell, 2003). "Because Islamic banks based on Islam Shariah. This is important and essential to comply with the true practice and compliance level in the overall operations in particular investment to run the bank in accordance with the principles of Islamic Shariah. So, the governing system is very important to ensure Shariah compliance in the bank [SP#2]

As the numerous shareholders own Islamic banks, it is imperative to have a proper guideline for monitoring the banking activities. In most cases, the employees and the top management do not have the proper knowledge regarding the SG. So, it is imperative to have an effective SG guideline under the supervision of SSB for eliminating the misconception among themselves. Essentially, without effective governance mechanisms, IFIs cannot deliver the religious and ethical legitimacy that stakeholders demand (Bougatef, 2015; Ullah *et al.*, 2016).

It's a requirement for the proper functioning of a public limited company. A public limited company is owned by thousands of Shareholders but cannot operate them directly" [E#2]. "Because in these Islamic organizations, who are working in the managerial part they are very general expert from the secular perspective and they joined in the banking as an expert and almost many of them know nothing about the SG and many of them are not even believe it in the authenticity of SG and sometimes they don't care. [SP#7]

Moreover, one of the respondents highlighted that previously institutions were monitored by the main owner but currently, in the global corporate world, it is impossible to think and run a corporation without the proper guidelines effectively and efficiently. As the contemporary institutions have the CG system, so it is very similar to have the SG guideline while everything in this world has been created by Almighty Allah. The respondent also highlights that "Shariah denotes some rules, regulations, guidelines and objectives and directions or indications" (SP#9). Similarly, there must be SG guidelines to run, monitor and direct the corporation effectively and properly so that there should have accurate accountability and answerability toward the concerned authority and to the Almighty Allah. In this regard, a SGF aims to enhance the governance system, decisions-making, ensure the independence of the SSB and the responsibility of the BOD, Islamic bank, management and SSB.

In the corporate world, the governance is also similarly essential to run these corporate entities because in early days business was run by individual perceptions not it is corporate." [E#5]. "The main thing this that there must be a necessity of framing governance, without governance, an institution cannot run in a mannered way, effective way and a good manner" [SP#9]. "In the modern world, the past, present, and future, governance is important to direct a corporation in an organized manner or affected way. [SP#9]

In addition, respondents (SP#1; SP#7; E#5) stated that to monitor the product authenticity and Shariah implementation in the investment, it is required to have an instruction for the SSB and Shariah officers how to perform their activities properly. More so, it is important to check the Shariah compliance quality, Shariah violations and monitor the banking investments. Additionally, one respondent highlights that without SG, Islamic banks cannot become a complete Islamic bank or a right Islamic business center. Thus, the previous literature stated that there should be SSB and Shariah executives to ensure the Shariah principles, supervise, monitor and review the Islamic bank functions, check the documents, provide Shariah ruling and confirm Shariah compliance in overall activities (Haridan *et al.*, 2018; Abdullah and Rahman, 2017; Bank Negara Malaysia [BNM], 2019; IFSB, 2009).

Whether the operations are run as per standards, as per governance inspections or audit or internal control whatever we necessary to see what to check with deviations if there is any and this checking or inspection or audit or internal control helps to run the institutions in the right

track" [E#5]. "Without Shariah governance, it cannot be an Islamic bank; it cannot be an Islamic business center." [SP#7]

Therefore, the BOD is fiduciary responsible for the shareholders' deposits, return and firm performance as well as for providing the proper guideline for the organization but because of the lack of knowledge they were unable to provide that attention, so it is required to have a written form of Shariah guidelines. The guideline should be on the basis of Islamic principles without any interference and fear of management. Central to the SG of IFIs, the roles of the independent SSB are assuring the Shariah compliance and enhancing the confidence of customers, shareholders and stakeholders (Banaga *et al.*, 1994; Grais and Pellegrini, 2006; Ullah *et al.*, 2016).

The responsibility of the BOD to run an Islamic institution in a proper way as per corporate governance rules that we are not interfering in appears of the management. But they do not know how to operate a bank itself. They don't have much experience." [E#2]

Besides, to protect and fulfill the interest and expectations of shareholders and the firm performance, there is a need for SG. Respondents (E#2; E#5) expressed that SG is important for an effective, efficient and profitable business. The prior authors also stated that if the regulators can ensure more comprehensive guidelines (risk, business, dividend and policy) for their business it would impact Islamic banks performance and profit (Athari and Bahreini, 2021; Yousef *et al.*, 2021; Al-Hunnayan, 2020; Budagaga, 2020; Duqi *et al.*, 2020). Moreover, the proper SG is imperative to attract and satisfy the customers, shareholders and depositors as well as to protect and fulfill the interest and expectations of shareholders and stakeholders. This finding similar to the conclusion of Chapra and Ahmed (2002), while they also stated that the confidence of the general people might be minimized in relation to the legitimacy and functions of the Islamic banks if there are no regulatory guidelines or SG manual.

Business for business workers, for better business, for an effective business, efficient business and to earn more profit corporate governance is a necessity. The Shariah governance is required to satisfy the customers, to satisfy the other shareholders, and to satisfy especially the customers those who have deposited money just because it is Islamic. [E#2]

Therefore, based on the above discussions it can be said that SG is important for the Islamic banks and financial institutions to implement the Shariah principles and enhance the quality of Shariah compliance. A sound and robust SGF can easily draw the intention of the different stakeholders and fulfill their demands. Similarly, it can be concluded that a sound and comprehensive CG structure is significant for the overall development of conventional financial institutions. It can protect the interest of all concerned stakeholders (Ayuso *et al.*, 2014; Wagdi *et al.*, 2021).

5. Conclusion

SG is an important and significant component in IFIs. It is identical to the CG of any institution. SGF in IFIs justifies Shariah compliance in their functional activities. SG is important for Islamic banks to establish Shariah principles, Shariah compliance, monitor the overall banking functions, exclude the misunderstanding of the management and executives, conventional bankers and banks. Moreover, without SG, an Islamic bank cannot run its activities effectively and efficiently, as well as ensuring accountability. There should be a sound and robust SG guideline to protect and fulfill the interests, expectations and demands of the customers, depositors, shareholders and stakeholders.

In Bangladesh, the SGF is formulated by the respective Islamic banks in favor of the BOD; its significance is not clarified to the concerned authorities; thus, there is an absence of a comprehensive SGF. Thus, the research has beneficial implications for Islamic banks and regulators. Based on the findings, they are aware of the importance of SGF for running their business. This research has also contributed to the field of IFIs by focusing on the importance of SG. A sound SGF can attract and draw the intention of the customers, general people, shareholders and stakeholders. Thus, BOD should be concerned about preparing a comprehensive SGF. The research examined the importance of SG by applying stakeholder, resource dependence and institutional theory which suggest that Bangladesh requires a comprehensive SGF for the proper functioning of the Islamic banks which is absent (Ullah, 2014). Besides, it is important to have a sound SG guideline for accomplishing the roles and protecting the rights of all concerned stakeholders. Finally, the research has added the empirical literature of SG in the global IFIs which will benefit the researchers.

The study is limited to the Islamic banks and their concerned authorities in accomplishing the research objective. The finding may vary in other jurisdictions and Islamic finance practicing countries. So, future researchers can justify these findings in diversified jurisdictions with a combination of the same respondents or the involvement of other participants from numerous sources. This research did not include the customers in the data collection process, which can be included in further research. Future researchers can also examine how the findings of this study enhance the performance and image of the IFIs.

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Appendix (self-developed)

- What is Shariah?
- What do mean by Shariah governance? How do you define Shariah governance?
- Why Shariah Governance Framework (SGF) is important for Islamic banks?
- Why Shariah governance framework is important in case of Bangladesh?
- Why do Islamic banks need a sound Shariah governance?

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