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# CONCEPTUAL DISTINCTION BETWEEN SHARIAH GOVERNANCE AND CORPORATE GOVERNANCE IN ISLAMIC FINANCE

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ABSTRACT

This article examines the conceptual differences between corporate governance and sharia governance by comparing their roles and oversight functions. The analysis is based on a critical synthesis of governance theory, agency theory, and the Islamic finance governance literature. The results show that corporate governance and sharia governance address different dimensions of risk. Corporate governance focuses on financial discipline and managerial oversight. Meanwhile, Sharia governance focuses on validating contractual compliance and adherence to Sharia principles. Therefore, the proposed conceptual framework positions financial approval and Sharia validation as two sequential phases of oversight. The framework illustrates the relationship between the two governance systems, provides a theoretical foundation for further empirical research, and serves as a reference for regulators and Islamic financial institutions in designing stronger governance structures to enhance accountability. Existing empirical literature still views Shariah governance as part of corporate governance. This implies a need to strengthen the theoretical foundation and support the formation of a more integrated governance structure within Islamic financial institutions.

*Keywords: Shariah governance; corporate governance; Islamic financial institutions; governance systems; conceptual distinction.*

ABSTRAK

Artikel ini bertujuan untuk mengkaji perbedaan konseptual antara tata kelola perusahaan dan tata kelola syariah melalui perbandingan peran serta fungsi pengawasan keduanya. Analisis disusun berdasarkan sintesis kritis terhadap teori tata kelola, teori keagenan, serta literatur tata kelola dalam keuangan syariah. Hasil penelitian ini menunjukkan bahwa tata kelola perusahaan dan tata kelola syariah mengendalikan dimensi risiko yang berbeda. Tata kelola perusahaan berfokus pada disiplin keuangan dan pengawasan manajerial, sedangkan tata kelola syariah berfokus pada validasi kesesuaian kontrak serta kepatuhan terhadap prinsip-prinsip syariah. Kerangka konseptual yang diusulkan menempatkan persetujuan finansial dan validasi syariah sebagai dua tahapan pengawasan yang saling berurutan. Kerangka tersebut menggambarkan hubungan antara kedua sistem tata kelola, menyediakan landasan teoretis bagi penelitian empiris selanjutnya, dan menjadi rujukan bagi regulator dan lembaga keuangan syariah dalam merancang struktur tata kelola yang lebih kuat guna meningkatkan akuntabilitas. Literatur empiris yang ada masih memandang tata kelola syariah sebagai bagian dari tata kelola perusahaan. Implikasinya, perlu memperkuat

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landasan teoretis dan mendukung terbentuknya struktur tata kelola yang lebih terpadu dalam lembaga keuangan syariah.

*Kata kunci: tata kelola syariah; tata kelola perusahaan; lembaga keuangan syariah; mekanisme tata kelola; perbedaan konseptual.*

## 1. INTRODUCTION

Governance frameworks in financial institutions are designed to regulate managerial discretion and strengthen institutional accountability in environments characterised by increasing complexity and regulatory pressure. Expansion of global financial systems has intensified demands for governance structures capable of sustaining transparency, managing institutional risk, and maintaining stakeholder confidence. Corporate governance has therefore evolved as a structured mechanism that regulates relationships among shareholders, boards of directors, and management to ensure accountability and long-term organisational sustainability (Aguilera et al., 2016; Claessens & Yurtoglu, 2013). Governance quality within banking institutions receives particular attention because financial institutions operate under high leverage and systemic exposure, making governance failures capable of generating significant financial disruption and reputational instability (Haan & Vlahu, 2016; Ullah et al., 2023).

The development of Islamic financial institutions introduces governance requirements that extend beyond conventional financial accountability. Islamic finance operates within a normative framework derived from Shariah principles that requires institutional decisions to comply not only with financial regulations but also with ethical and legal standards rooted in Islamic jurisprudence. Governance systems in Islamic financial institutions therefore function under dual accountability expectations, combining financial performance obligations with compliance-based validation requirements (Alam, Islam, et al., 2022; Safiullah, 2023). The establishment of Shariah governance systems, particularly the SSB, reflects institutional recognition that compliance integrity is a central component of governance legitimacy and stakeholder trust (Grais & Pellegrini, 2006; Mollah et al., 2016; Muhfiatun et al., 2024).

Recent regulatory developments further reinforce the institutionalisation of governance within Islamic finance. Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions emphasise the importance of independent Shariah supervision as an essential governance component that can strengthen compliance assurance and institutional transparency. Complementary governance guidance issued by the Islamic Financial Services Board outlines supervisory responsibilities associated with disclosure practices, governance accountability, and risk oversight mechanisms (AAOIFI, 2017; IFSB, 2021). The expansion of Islamic financial institutions across jurisdictions has consequently produced governance environments characterised by layered supervisory structures that combine conventional corporate governance systems with Shariah-based compliance oversight (Grassa et al., 2023; Ullah et al., 2023).

Most recently, AAOIFI's Governance and Ethics Board issued Governance Standard (GS) 1 (Revised 2024), "Shariah Governance Framework," together with GS 19-22 governing the appointment, functions, and reporting of Shariah Supervisory Boards (SSBs), while the Islamic Financial Services Board released IFSB-30 (2024) and IFSB-31 (2025) to strengthen supervisory guidance on corporate and Shariah governance across the banking, capital market, and takaful sectors (AAOIFI, 2024; IFSB, 2025). Despite these regulatory developments, the conceptual relationship between corporate governance and Shariah governance remains insufficiently explained in the academic literature.

Governance frameworks in Islamic finance have matured considerably in recent years; conceptual ambiguity nonetheless remains evident in defining the relationship between corporate governance and Shariah governance. Many governance studies implicitly treat Shariah governance as an extension of corporate governance rather than as an independent supervisory domain with distinct institutional objectives and accountability logic. Such interpretation generates overlap in governance responsibilities, particularly in areas related to compliance verification, disclosure control, and risk management supervision. Absence of clearly defined governance boundaries increases the likelihood of duplicated oversight responsibilities and weakens institutional coordination among governance bodies (Grassa, 2015; Hamza, 2016; Safiullah, 2023).

Research on governance in Islamic finance has expanded considerably, particularly through empirical studies examining the relationship between governance characteristics and institutional performance. Most studies evaluate governance using structural indicators such as board independence, expertise, and supervisory activity in relation to financial stability, disclosure transparency, and risk management efficiency (Nomran et al., 2018; Safiullah & Shamsuddin, 2018; Tumewang et al., 2025; Ullah et al., 2023). Existing studies provide valuable empirical evidence but primarily assess governance effectiveness rather than explain the conceptual relationship between corporate governance and Shariah governance. Limited attention has been given to clarifying how the two governance systems differ in terms of authority, supervisory functions, and accountability.

Several studies acknowledge the coexistence of corporate governance and Shariah governance without systematically explaining how supervisory responsibilities are allocated between the two governance systems (Grassa et al., 2023; Safiullah, 2023). Differences observed across jurisdictions are often driven by regulatory preferences rather than by a clearly articulated theoretical framework. Extensive empirical evidence links governance structures to institutional performance, yet a systematic explanation of how corporate governance and Shariah governance differ in their objectives, authority, and accountability remains limited. This conceptual gap justifies the need for a comparative analysis before further empirical operationalisation of governance constructs.

This article develops a comparative framework that distinguishes corporate governance from Shariah governance across key institutional dimensions. The framework explains differences in governance objectives, authority structures, accountability mechanisms, and compliance responsibilities. Clarifying these dimensions provides a stronger theoretical basis for future governance research and facilitates the development of more consistent analytical frameworks for Islamic financial institutions.

This article makes three contributions to the governance literature. First, it extends governance theory by integrating financial accountability with compliance-based accountability in the context of Islamic financial institutions. Second, it develops a comparative framework that distinguishes corporate governance from Shariah governance across key institutional dimensions, providing a clearer conceptual basis for future empirical studies. Finally, the framework offers practical guidance for regulators and Islamic financial institutions in allocating supervisory responsibilities between corporate boards and Shariah supervisory bodies. Greater conceptual clarity is expected to support more consistent governance implementation and strengthen stakeholder confidence.

## 2. LITERATURE REVIEW

Scholarly discussion on governance in Islamic finance has developed in parallel with the institutional expansion of Islamic financial systems across diverse jurisdictions. Early conceptual work emphasised the need to integrate compliance assurance into governance structures to preserve institutional legitimacy and stakeholder trust (Chapra & Ahmed, 2002; Mason et al., 2007). Governance in Islamic financial institutions evolved beyond conventional financial accountability to encompass broader responsibilities toward shareholders, depositors, investment account holders, and society. Recent governance studies further highlight that institutional credibility in Islamic finance depends on the consistency of compliance enforcement and transparency mechanisms embedded within governance structures (Tumewang et al., 2025; Ullah et al., 2023).

Later studies shifted attention to the institutional arrangements that support effective Shariah supervision. The Shariah Supervisory Board (SSB) has consistently been identified as the central governance mechanism responsible for ensuring compliance with Shariah principles. Empirical studies demonstrate that the effectiveness of Shariah oversight depends on the independence, competency, and institutional authority of supervisory bodies responsible for validating financial activities (Aslam & Haron, 2021; Grais & Pellegrini, 2006; Hazizi & Kassim, 2019). Well-established Shariah governance systems strengthen stakeholder confidence and enhance institutional credibility, particularly in jurisdictions with diverse regulatory settings (Choudhury & Alam, 2013; Farag et al., 2018).

Many empirical studies have examined the relationship between Shariah governance and institutional outcomes. Existing empirical studies frequently investigate governance attributes such as board independence, expertise, and meeting intensity in relation to performance indicators including disclosure transparency, financial stability, and risk management effectiveness. Evidence generally shows that institutions with active Shariah oversight tend to achieve higher levels of transparency and stronger operational resilience (Nomran et al., 2018; Safiullah & Shamsuddin, 2018; Ullah et al., 2023). Recent studies also suggest that governance quality shapes institutional behaviour and risk discipline, particularly as Islamic financial institutions operate in increasingly complex regulatory environments (Alam, Rahman, et al., 2022; Safiullah, 2023).

Cross-country studies highlight important differences in the way Shariah governance is organised across jurisdictions. Most regulatory models distinguish between centralised and decentralised governance arrangements. Centralised governance structures typically enhance standardisation of Shariah decisions and strengthen institutional coordination, while decentralised systems offer flexibility that supports institutional adaptation to local regulatory conditions (Grassa, 2015; Grassa et al., 2023; Hamza, 2016). Regulatory guidance issued by international standard-setting bodies reinforces the importance of governance architecture in determining the effectiveness of compliance supervision and institutional accountability (IFSB, 2021). AAOIFI's revision of the Shariah Governance Framework in 2024 and the publication of IFSB-31 (2025) further strengthen these regulatory foundations by introducing more explicit supervisory expectations (AAOIFI, 2024; IFSB, 2025).

Recent studies have shifted attention from governance structures to the way governance operates in practice. Evidence suggests that governance quality cannot be evaluated solely through formal institutional characteristics but should also consider how supervisory processes are implemented. Transparency, disclosure quality, and supervisory discipline have been identified as key elements that bolster public confidence in Islamic financial institutions (Alam, Rahman, et al., 2022; Safiullah, 2023; Ullah et al., 2023). This shift reflects a broader recognition that governance effectiveness depends on operational behaviour rather than on structural representation alone.

Despite the growing empirical literature, many studies continue to treat Shariah governance as an extension of conventional corporate governance rather than directly examining its institutional boundaries. This obscures a functional difference that matters in practice: corporate governance systems are oriented toward controlling managerial behaviour and protecting shareholder interests through financial oversight, whereas Shariah governance systems evaluate contractual permissibility and assess conformity with ethical and legal standards derived from Islamic jurisprudence. Conflating the two functions understates the distinct logic each is meant to serve.

Existing research also relies heavily on structural indicators when assessing governance effectiveness. Many studies assess governance quality using observable board characteristics such as size, independence, and meeting frequency. These indicators offer measurable proxies, but they say little about the institutional logic underlying governance functions. As a result, empirical modelling has progressed more rapidly than theoretical explanation of how different governance systems operate.

Existing studies also differ in the way governance authority is conceptualised across institutional settings. Some studies describe Shariah governance as an advisory mechanism embedded within corporate governance structures, whereas others present it as an independent supervisory system with its own accountability framework (Grassa et al., 2023; Safiullah, 2023). Such inconsistencies create ambiguity regarding the scope of authority exercised by Shariah supervisory bodies and complicate regulatory harmonisation across jurisdictions. Lack of conceptual alignment further reduces the comparability of governance practices across institutional environments.

These gaps indicate the need for a comparative conceptual analysis of corporate governance and Shariah governance. Rather than adding another empirical examination of governance-performance relationships, the discussion focuses on explaining how the two governance systems differ in terms of objectives, authority, accountability, and compliance functions. These institutional dimensions remain insufficiently addressed in the existing literature.

## 3. METHODOLOGY

This study develops a conceptual distinction between corporate governance and Shariah governance in Islamic financial institutions using a structured analytical approach grounded in governance theory and institutional practice. Statistical procedures are not employed because the analysis focuses on governance concepts that define authority relationships, accountability structures, and supervisory responsibilities within Islamic financial institutions. Conceptual analysis provides the basis for explaining how governance systems operate under different institutional logics and for distinguishing financial accountability from compliance-oriented supervision (Jaakkola, 2020; MacInnis, 2011).

The literature was selected through a structured review covering conventional and Islamic financial systems. The review included peer-reviewed journal articles, regulatory standards, and institutional reports describing supervisory roles, authority structures, and monitoring practices. Foundational studies were used to establish the theoretical basis, particularly those addressing agency relationships and control mechanisms. Recent publications were incorporated to capture current regulatory developments and supervisory practices. Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Financial

Services Board were included because they define supervisory responsibilities within Islamic financial institutions (AAOIFI, 2017; IFSB, 2021).

The analysis was conducted through a comparative synthesis of concepts identified in the selected literature. Governance objectives, institutional logic, authority distribution, stakeholder orientation, accountability relationships, supervisory scope, monitoring responsibilities, risk orientation, performance indicators, and regulatory frameworks were identified as the principal dimensions of comparison. The resulting differences were organised into analytical categories representing the distinct functions of each governance system.

The final stage organised these analytical categories into a comparative framework distinguishing corporate governance from Shariah governance across key institutional dimensions. Each dimension reflects theoretical arguments as well as supervisory practices observed in Islamic financial institutions. The resulting framework explains how the two systems operate as complementary governance systems that address different categories of institutional risk. Corporate governance focuses on financial accountability and managerial control, whereas Shariah governance emphasises compliance assurance and the protection of institutional legitimacy.

## 4. RESULT AND DISCUSSION

### 4.1. CONCEPTUAL DIFFERENTIATION BETWEEN CORPORATE GOVERNANCE AND SHARIAH GOVERNANCE

Governance arrangements in Islamic financial institutions reveal that corporate governance and Shariah governance perform supervisory roles rooted in different institutional logics. This distinction becomes clearer when responsibilities are traced to the category of risk each mechanism is designed to control, rather than to formal structural position alone. Corporate governance primarily addresses financial risks arising from managerial discretion, resource allocation, and reporting reliability, whereas Shariah governance addresses compliance risks that emerge when institutional practices deviate from Islamic legal and ethical principles. The coexistence of these two supervisory functions reflects dual accountability structures rather than a single, unified control logic (Chapra & Ahmed, 2002; Grais & Pellegrini, 2006; Safiullah, 2023).

Differences in governance objectives provide the most immediate boundary between the two governance systems. Corporate governance emphasises financial sustainability because institutional continuity depends on profitability, liquidity, and operational discipline, whereas Shariah governance introduces legitimacy as an institutional objective, with compliance determining whether financial activities remain socially and religiously acceptable. Failure to maintain compliance produces consequences that extend beyond financial loss, including reputational erosion and declining stakeholder confidence. Governance effectiveness within Islamic financial institutions therefore requires simultaneous evaluation of financial performance and compliance integrity, rather than reliance on financial indicators alone (Hasan, 2011; Kabir Hassan, 1999; Tumewang et al., 2025).

Authority distribution represents another defining dimension separating corporate governance from Shariah governance. Corporate governance authority is concentrated within boards of directors and executive management responsible for strategic direction and financial control, whereas Shariah governance authority is exercised through SSBs and compliance units responsible for reviewing contractual permissibility and validating operational conformity.

The presence of these parallel authority channels introduces an additional verification layer that reduces managerial dominance over decision outcomes. Agency theory explains this configuration by demonstrating that layered supervision reduces information asymmetry and strengthens monitoring intensity in institutions characterised by dispersed stakeholders and limited direct monitoring capacity (Archer et al., 1998; Farag et al., 2018; Grassa et al., 2023).

Stakeholder accountability further reinforces the separation between governance domains. Conventional governance frameworks prioritise shareholder protection and regulatory compliance, whereas Islamic financial institutions operate within expanded accountability expectations in which depositors and investment account holders evaluate institutional credibility through adherence to Shariah principles. This expanded accountability introduces reputational considerations that reshape governance priorities and influence managerial decision-making. Governance systems therefore evolve not only to protect financial interests but also to preserve institutional legitimacy and public trust (Freeman et al., 2010; Safieddine, 2009; Ullah et al., 2023).

Supervisory scope further strengthens the distinction between governance functions. Corporate governance supervises the quality of financial reporting, managerial performance, and risk management discipline, while Shariah governance supervises the permissibility of financial contracts, product structures, and operational activities that determine compliance status.

Decisions that satisfy profitability expectations may still be rejected when they conflict with Shariah requirements; this rejection authority shows that compliance validation functions as an independent decision filter rather than a symbolic oversight mechanism. Empirical evidence confirms that active Shariah supervision strengthens transparency and improves institutional credibility across Islamic financial institutions (Nomran et al., 2018; Safiullah & Shamsuddin, 2019; Tumewang et al., 2025).

These governance dimensions indicate that Islamic financial institutions operate through layered supervisory arrangements rather than centralised control systems. Corporate governance stabilises financial discipline by controlling agency-related risks, whereas Shariah governance stabilises institutional legitimacy by controlling compliance-related risks. Comparative institutional relationships summarised in Table 1 and interaction pathways illustrated in Figure 1 provide a structural representation of this dual governance logic.

Viewing governance as a layered structure helps resolve the ambiguity found in previous studies that position Shariah governance as subordinate to corporate governance. Conceptual separation clarifies that Shariah governance performs an independent supervisory function rather than serving as an auxiliary advisory mechanism. Clear delineation between governance responsibilities strengthens theoretical clarity and supports regulatory harmonisation across jurisdictions where governance authority boundaries remain inconsistently defined (Hamza, 2016; Matoussi & Grassa, 2012; Safiullah, 2023).

Table 1. Conceptual Distinction between Corporate Governance and Shariah Governance

| Dimension | Corporate Governance | Shariah Governance | Key References |
|---|---|---|---|
| Primary Objective | Protect shareholder interests and enhance financial performance | Ensure compliance with Shariah principles and maintain institutional legitimacy | Chapra and Ahmed (2002); Jensen and Meckling, (1976); Safieddine, (2009) |
| Institutional Logic | Financial accountability and performance alignment | Ethical and legal compliance based on Islamic jurisprudence | Hassan (1999); Shleifer and Vishny (1997) |
| Theoretical Foundation | Agency theory and stakeholder theory | Agency theory with extended accountability and Shariah compliance principles | Archer et al. (1998); Freeman (1984); Jensen and Meckling (1976) |
| Governance Authority | Board of directors and executive management | SSB and Shariah compliance units | AAOIFI (2017); Grais and Pellegrini (2006) |
| Scope of Oversight | Financial reporting, managerial performance, and risk management | Contract permissibility, product validation, and | Mollah and Zaman (2015); Nawaz (2019) |

| Dimension | Corporate Governance | Shariah Governance | Key References |
|---|---|---|---|
| | | operational conformity | |
| Stakeholder Orientation | Primarily shareholders and regulators | Shareholders, depositors, investment account holders, and society | Chapra and Ahmed (2002); IFSB (2021) |
| Nature of Risk Addressed | Financial and operational risk | Shariah non-compliance risk and reputational risk | Farag et al. (2018); Safieddine (2009) |
| Monitoring Mechanism | Internal audit, external audit, and regulatory supervision | Shariah audit, Shariah review, and compliance monitoring | IFSB (2021); Rahman et al. (2013) |
| Performance Indicators | Profitability, efficiency, and financial stability | Compliance status, Shariah adherence, and ethical conformity | Claessens and Yurtoglu (2013); Hasan (2011) |
| Regulatory Framework | Corporate law and banking regulations | AAOIFI governance standards and IFSB governance principles | AAOIFI (2017); IFSB (2021) |

## 4.2. INTEGRATED GOVERNANCE PERSPECTIVE

Institutional relationships summarised in Table 1 illustrate that governance effectiveness in Islamic financial institutions cannot be explained through isolated governance systems. Financial accountability and compliance supervision function as interdependent processes shaping institutional outcomes at different decision stages: corporate governance establishes financial discipline by monitoring managerial actions, while Shariah governance reinforces institutional legitimacy by ensuring decisions remain consistent with prescribed legal and ethical standards, as illustrated by the sequential structure in Figure 1.

The interaction between governance layers is a defining characteristic of governance architecture in Islamic financial institutions. Corporate governance reduces exposure to managerial opportunism and inefficient allocation of institutional resources. Shariah governance reduces exposure to reputational risk and compliance failure that may undermine stakeholder confidence. Institutional stability depends on continuous interaction between financial supervision and compliance validation. Removal of either governance layer weakens institutional control capacity and increases exposure to operational risk (Safiullah, 2023; Ullah et al., 2023).

Changes in stakeholder expectations have increased the need to integrate financial oversight with Shariah compliance. Governance responsibilities extend beyond protecting investor capital toward maintaining ethical reliability and public trust. Stakeholders increasingly evaluate institutional performance through evidence of compliance consistency alongside financial outcomes. Integrated governance therefore represents an adaptive response to evolving accountability expectations across Islamic financial environments (Muhfiatun et al., 2024; Safiullah, 2023; Tumewang et al., 2025).

Agency theory offers an additional explanation for the structural necessity of integrated governance. Corporate governance aligns managerial decisions with financial objectives and reduces conflicts tied to managerial discretion, while Shariah governance extends this alignment through compliance verification that restricts decisions inconsistent with institutional norms. This integration reduces monitoring gaps and enhances decision reliability, and the interaction illustrated in Figure 1 represents a structural mechanism that strengthens institutional resilience.

The comparative framework developed in this study shows that effective governance depends on coordinated interaction between financial supervision and compliance validation rather than on isolated governance systems. Corporate governance directs financial strategy and supervises operational discipline. Shariah governance validates permissibility and ensures institutional conformity with ethical standards. Governance outcomes therefore reflect the cumulative influence of financial discipline and compliance assurance operating within a unified institutional environment.

Table 1 and Figure 1 provide a conceptual basis for future empirical investigation of integrated governance structures. The framework proposed in this study extends existing governance literature by positioning Shariah governance as an independent supervisory domain that interacts dynamically with corporate governance rather than functioning as its derivative component (Jaakkola, 2020; Safiullah, 2023).


Figure 1. Dual Governance Structure in Islamic Financial Institutions

### 4.3. THEORETICAL IMPLICATIONS

The findings reinforce the view that Shariah governance should be treated as an independent governance domain rather than as an extension of corporate governance. Earlier governance models frequently embedded Shariah governance within corporate governance structures without explicitly recognising the distinct institutional logic underlying compliance supervision. The analytical differentiation developed in this study shows that corporate governance and Shariah governance operate under separate supervisory objectives that address different categories of institutional risk. Corporate governance focuses on risks associated with managerial discretion and financial performance, whereas Shariah governance addresses risks related to compliance legitimacy and reputational credibility.

This distinction strengthens governance theory by framing Islamic financial institutions as systems of layered accountability rather than single-layer supervisory control. It also extends agency theory by recognising that governance relationships in Islamic financial institutions involve not only shareholders and managers but also investment account holders and other stakeholders whose expectations depend on reliable Shariah compliance verification. Multiple supervisory authorities, as summarised in Table 1, reduce monitoring asymmetry through differentiated oversight, while the sequential validation pathways illustrated in Figure 1 show that governance effectiveness depends on coordinated verification rather than isolated supervisory interventions.

The comparative framework proposed in this study also contributes to the development of conceptual models in Islamic finance research. The governance dimensions presented in Table 1 demonstrate that differences between corporate governance and Shariah governance extend beyond organisational structure to include authority distribution, stakeholder orientation, and supervisory scope. Corporate governance directs financial strategy and operational discipline, whereas Shariah governance validates compliance legitimacy and contractual permissibility. Figure 1 complements this comparison by illustrating governance as a sequential decision-making process in which institutional reliability is achieved through successive stages of financial approval and Shariah validation. Viewing governance as a coordinated verification process provides a stronger analytical foundation for future theoretical refinement and empirical research in Islamic financial governance.

### 4.4. PRACTICAL AND REGULATORY IMPLICATIONS

The findings of this study provide practical guidance for regulators and Islamic financial institutions in designing governance systems that clearly distinguish the responsibilities of corporate governance and Shariah governance. Governance inefficiencies often arise when supervisory boundaries remain unclear, increasing the likelihood of duplicated evaluations, inconsistent decisions, and delayed operational responses. Clear allocation of supervisory responsibilities reduces institutional uncertainty and strengthens accountability across governance layers. Corporate governance and Shariah governance should therefore be viewed as complementary rather than competing mechanisms. Boards of directors remain responsible for financial sustainability through strategic direction and risk oversight, whereas Shariah supervisory bodies ensure legitimacy of compliance by validating contractual structures and institutional practices against Shariah principles. Figure 1 illustrates how effective communication between these supervisory functions improves transparency and reduces the likelihood that financial initiatives proceed without adequate Shariah validation. Formal coordination between governance layers also strengthens institutional resilience against reputational and regulatory risks.

The proposed framework also has implications for regulatory harmonisation across jurisdictions. Differences in supervisory expectations continue to challenge regulators operating in diverse governance environments. The comparative framework presented in Table 1 provides a conceptual reference for integrating financial oversight with Shariah compliance while preserving the distinct responsibilities of each governance mechanism. Governance systems that adopt dual accountability principles are more likely to strengthen institutional credibility and promote consistent regulatory implementation across Islamic financial institutions. Recent international standards, including AAOIFI's Shariah Governance Framework (GS 1, Revised 2024) and IFSB-31 (2025), reflect this direction by reinforcing the integration of financial supervision and Shariah compliance within a coherent governance structure (AAOIFI, 2024; IFSB, 2025).

## 5. CONCLUSION

This study clarifies the institutional distinction between corporate governance and Shariah governance in Islamic financial institutions. The analysis demonstrates that the two governance systems differ in their supervisory objectives, authority structures, accountability relationships, and approaches to risk control. Corporate governance focuses on managerial oversight and financial sustainability, whereas Shariah governance emphasises compliance with Islamic legal and ethical principles. These differences indicate that governance in Islamic financial institutions operates through layered accountability in which financial oversight and Shariah compliance perform complementary supervisory functions.

The main contribution of this study lies in developing a comparative framework that distinguishes corporate governance from Shariah governance across key institutional dimensions. The framework strengthens governance theory by explaining how financial accountability and Shariah compliance function as distinct yet complementary forms of supervision. The analysis also extends agency theory by recognising that governance relationships in Islamic financial institutions involve broader accountability to investment account holders and other stakeholders in addition to shareholders. This perspective provides a stronger conceptual foundation for future empirical research on governance structures in Islamic financial institutions.

Several limitations should be considered when interpreting these conclusions. The analysis is conceptual and does not examine the empirical effects of governance arrangements across different institutional settings. Differences in regulatory frameworks and supervisory practices may also influence how governance systems operate across jurisdictions. Future research could operationalise the proposed framework by developing measurable indicators of supervisory interaction, authority distribution, and compliance validation. Empirical evidence from different regulatory environments would further enhance understanding of how governance arrangements influence institutional stability, Shariah compliance, and stakeholder confidence.

## 6. ETHICAL STATEMENT

Generative AI tools were used solely for grammar and language editing. They were not used to generate research content, conduct data analysis, interpret the findings, or develop the conclusions. The author reviewed all AI-assisted edits and takes full responsibility for the final manuscript.

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