



CHALLENGES IN CULTIVATING SHARIAH COMPLIANCE CULTURE IN MALAYSIAN ISLAMIC FINANCIAL INSTITUTIONS

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ABSTRACT

The study examines the challenges Malaysian Islamic financial institutions (IFIs) face when building a robust Shariah compliance culture in accordance with guidelines set by Bank Negara Malaysia (BNM). Using an exploratory qualitative method that merges semi-structured interviews with thematic analysis of secondary data, it assesses how leadership commitment, organisational structures, and regulatory factors shape Shariah adherence. Findings reveal inconsistencies in Shariah interpretation, conflicts between ethical mandates and commercial objectives, and complexities in balancing competitiveness with Islamic principles. These gaps call for stronger leadership, targeted training, and transparent governance to embed authentic Shariah values. While the focus on Malaysian IFIs may limit broader applicability, the research underscores the crucial role of an integrated Shariah compliance culture in bolstering Islamic finance's identity and competitiveness.

Keywords: Corporate Governance; Governance Challenges; Islamic Financial Institutions; Regulatory Framework; Shariah Compliance Culture

Submitted: 29/06/2025

Accepted: 14/10/2025

Published: 26/12/2025

INTRODUCTION

Islamic financial institutions (IFIs) are becoming increasingly significant in the global financial landscape, particularly in countries such as Malaysia, where Islamic and conventional finance coexist. Guided by Shariah principles, which stress ethical and religious standards for financial transactions and business conduct, Malaysian IFIs operate under the Shariah Governance Policy Document (SGPD) issued by Bank Negara Malaysia (BNM). Despite these formal guidelines, IFIs still grapple with sustaining a strong Shariah compliance culture. Core issues include the lack of explicit cultural frameworks, limited understanding of Shariah principles among staff, and tension between commercial priorities and adherence to Shariah standards. These challenges underscore the need for cultivating a leadership-driven ethos, integrating Shariah governance into strategic and risk management processes, and embedding Islamic principles into everyday activities.

Establishing a robust Shariah-compliance culture remains complex due to insufficient staff knowledge, competing business targets, and inadequate training programs. External





pressures, such as market competition and variations in regulatory approaches, add further complications. Most research focuses on governance structures but overlooks the deeper cultural processes that influence how IFIs manage specific internal challenges, the ways these hurdles affect ethical behaviour and overall performance, and the strategies that can help overcome these challenges. Addressing such questions is crucial for preserving public trust and for safeguarding the Islamic identity that differentiates IFIs from their conventional counterparts.

The SGPD 2019, para 20.1, mandates IFIs to develop and sustain a strong Shariah compliance culture. However, there is a lack of empirical research examining the real-world complexities in doing so. Despite Malaysia's supportive legal environment and the expansion of Islamic finance, many IFIs still struggle to embed Shariah principles at all organisational levels, from corporate decision-making to daily transactions. Uneven commitment from leadership, incompatibilities between financial goals and ethical obligations, and inconsistent practices among staff undermine the ethical identity of IFIs and pose reputational risks. These risks threaten public trust, which is critical to differentiate Islamic finance from conventional finance. Furthermore, the Shariah Advisory Council's (SAC), through SGPD 2019, ensures oversight of IFIs; however, the gap between theoretically sound governance structures and how staff and management apply Shariah obligations in routine activities persists. Such difficulties suggest that more practical research on specific challenges to build a Shariah compliance culture and on possible solutions is necessary.

This study, therefore, aims to: explore the understanding and current practices of Shariah compliance culture in Malaysian Islamic banking institutions; identify the common and institution-specific challenges that hinder the development of a consistent Shariah compliance culture in Malaysian Islamic banking institutions; and propose strategies to overcome both common and institution-specific challenges, enhancing Shariah compliance and ethical alignment in Malaysian Islamic banking institutions.

This paper is divided into six sections. Followed by this introduction, section two presents the literature review, while section three discusses the methodology. Section four presents the discussion and findings, and section five deals with recommendations. The final section is the conclusion. It is anticipated that the findings of this research will assist to understand how a Shariah compliance culture can be instilled in IFIs from a practical perspective.

LITERATURE REVIEW

The literature explores the theoretical, governance, and cultural dimensions shaping Shariah compliance culture in IFIs. It integrates discussions about the evolution of Shariah compliance in Islamic finance, corporate culture theories, and governance structures in Malaysia. It also focuses on how leadership, employee engagement, and risk management practices converge to create or hinder a Shariah-compliance culture.

Theoretical Framework of Shariah Compliance Culture

Frameworks supporting Shariah compliance provide structured, theory-based approaches for IFIs to implement effective governance while adhering to Islamic ethical principles and achieving business goals. Three key theories—agency theory, stewardship theory, and stakeholder theory—serve as the foundation for Shariah governance in IFIs.





Agency theory, reinterpreted through Islamic values, integrates trust (*amanah*), honesty (*sidq*), and accountability (*mas'uliyah*), encouraging managers to act as moral trustees accountable to God (Muneeza et al., 2014). Stewardship theory reflects the Islamic concept of vicegerency (*khalifah*), instilling a duty to promote societal well-being and sustainable growth (Laldin & Furqani, 2016). Stakeholder theory emphasizes social justice (*adl*) and public interest (*maslahah*), ensuring operations align with *maqasid al-Shariah* (Ahmed, 2010).

These frameworks collectively enhance transparency, ethical leadership, and societal impact through robust structures, such as Shariah boards and audits, ensuring IFIs' alignment with Shariah and modern financial demands (Rafikov & Akhmetova, 2020; Kayani, 2021).

Foundations and Interpretation of Shariah Compliance

Islamic finance is rooted in Shariah principles, which govern all aspects of a Muslim's life, including financial transactions. Its principles prohibit *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling) (Iqbal & Mirakhor, 2011). *Riba* is prohibited due to its exploitative nature, necessitating asset-based or profit-sharing mechanisms instead of interest-bearing loans (Chapra, 2008). *Gharar* is avoided to ensure contractual clarity and fairness (El-Gamal, 2006), while *maysir* opposes ethical Islamic values by promoting unearned wealth (Obaidullah, 2005).

Shariah compliance has evolved from merely avoiding prohibited elements to incorporating *maqasid al-Shariah* (objectives of Shariah), emphasising economic justice, ethical governance, and societal welfare (Laldin & Furqani, 2018). Key advancements include profit-and-loss sharing models like *musharakah* and *mudarabah*, asset-backed financing such as *sukuk*, and investments with positive social impact (Dar & Presley, 2000; Jobst et al., 2008).

Challenges in Instilling and Promoting Shariah Compliance

Islamic finance has grown substantially, yet full adherence to Shariah principles remains challenging (Wasim and Zafar, 2024). Inconsistent interpretation of Shariah rulings across different regions and the shortage of qualified Shariah scholars with deep financial expertise can create uneven governance (Ali et al., 2020). Integrating Islamic principles into largely conventional banking processes requires robust oversight, risk management, and audit mechanisms, potentially straining institutional resources (Shamsudheen et al., 2024). The rapid innovation in fintech poses additional complexities, as newly emerging services may not fit neatly within established Shariah guidelines (Mustapha and Kunhibava, 2021). In some jurisdictions, conventional regulatory structures fail to account for the distinct needs of Islamic finance. Shariah non-compliance, whether due to resource constraints or inadequate oversight, erodes stakeholder trust and undermines institutional integrity (Wasim and Zafar, 2024).

Significance of Shariah Compliance in IFIs

Shariah compliance is essential for the governance, legal frameworks, and operational integrity of IFIs. The Central Bank of Malaysia Act 2009 (CBMA 2009) establishes the SAC as the highest authority on Shariah matters, ensuring consistency and credibility within the financial sector. However, the SAC's binding rulings on civil courts have raised concerns about judicial independence. While SAC oversight fosters uniformity and enhances stakeholder trust, its rigidity can sometimes restrain innovation. Moreover, the reliance on civil courts for dispute resolution often leads to inefficiencies, as these courts may lack sufficient Shariah expertise (Hassan, Aliyu, & Naifar, 2022). Strengthening governance structures and building judicial capacities are vital steps toward ensuring seamless operations in the industry.





Corporate Culture Theory

Corporate culture refers to the shared values, norms, and behaviours that guide members of an organisation (Gorton & Zentefis, 2020). It functions as an “invisible hand” shaping employee behaviour, risk perception, and ethical standards (Luthans et al., 2021). Various cultural models, including the clan, adhocracy, market, and hierarchy typologies (Cameron and Quinn, 1999), lead to different outcomes related to collaboration, adaptation, innovation, and control. In a banking setting, culture profoundly influences risk-taking behaviour and ethical decision-making (Thakor, 2015). A supportive corporate culture can enhance employee satisfaction and loyalty, whereas an overly competitive or authoritarian culture may encourage misconduct or misalignment with organisational values (Van den Steen, 2010a).

Compliance Culture in Banking Institutions

A compliance culture weaves ethical behaviour and adherence to regulations into organisational routines, supported by visible leadership, targeted training, transparent oversight, and definitive accountability structures (Altamuro et al., 2021; Ethisphere, 2023). Formal governance frameworks interact with corporate values to shape how effectively institutions uphold ethical standards. In the Islamic finance context, this dynamic takes on additional complexity as Shariah compliance requires an alignment with moral and spiritual objectives that surpass secular legal requirements (Rahman et al., 2024).

Differences Between Shariah Compliance and Conventional Banking Compliance

Shariah compliance focuses on adherence to Islamic legal injunctions, including forbidding interest-based transactions, speculative activities, and involvement in questionable industries (Ahmed, 2014). IFIs rely on Shariah committees and boards for guidance, while conventional banks look to internal compliance departments and external regulators. Nonetheless, both systems strive to safeguard institutional integrity, mitigate risk, and uphold stakeholder confidence (Bahari & Baharudin, 2016). The core distinction lies in the faith-based obligations that compel IFIs to align every product and service with Shariah precepts, creating a moral dimension that conventional banks do not typically face.

Governance Theory and Shariah Governance

Governance theory covers frameworks and practices aimed at balancing stakeholder interests, maintaining accountability, and minimising risk (Governance Institute of Australia, 2024). In Islamic finance, governance mechanisms must integrate Shariah decision-making at both the board and management levels. Malaysia adopts a two-tier governance model: a national Shariah advisory council for overarching directives and in-house Shariah committees within institutions (Bank Negara Malaysia, 2010).

Islamic Corporate Culture and the Role of Leadership

Islamic corporate culture is defined by core Islamic values, such as *ihsan* (consciousness of divine oversight) and *itqan* (striving for excellence), which guide organisational norms and shape ethical behaviours (Byarwati, 2016; Kosasih, 1999). Leaders play a formative role by demonstrating these values and by ensuring that *Maqasid al-Shariah* – justice, fairness, and social welfare – integrated in both strategic decisions and basic operational activities (Bank





Negara Malaysia, 2010; Engku Rabiah, 2013). Empirical findings suggest that leadership commitment, effective corporate governance, and strong employee engagement form the backbone of a truly ingrained Shariah compliance culture (Hashim et al., 2015).

Shariah Compliance as a Source of Competitive Advantage

An institution that integrates Shariah values thoroughly may gain a competitive advantage, because Islamic principles infused into corporate culture are hard to replicate (Barney, 1986). Authentic Shariah compliance can strengthen customer trust, enhance brand differentiation, and bolster loyalty (Alam et al., 2021). However, these benefits hinge on the institution's ability to embrace Islamic principles not merely as a marketing tool but as a genuinely internalised framework. When Shariah compliance is fully embedded, it becomes a distinctive resource that can yield sustained performance.

Challenges and Opportunities

IFIs navigate evolving financial technologies, changing market conditions, and variations in Shariah interpretations. Some banks replicate conventional products rather than creating genuinely Shariah-based ones (Usmani, 2002). Lack of standardized rulings across jurisdictions and the need for qualified Shariah scholars remain major impediments. Nevertheless, the growth of Islamic finance worldwide, demand for ethical alternatives, and ongoing regulatory reforms open possibilities for expansion, innovation, and alignment with sustainability agendas (Devi & Hamid, 2024).

The Islamic Financial System in Malaysia

Malaysia hosts a dual banking model where Islamic finance operates alongside conventional finance (Bank Negara Malaysia, 2003). IFIs have grown through a supportive regulatory framework, historical milestones like the Haj Pilgrim's Fund Board (Tabung Haji) and Bank Islam Malaysia Berhad (BIMB), and various governance initiatives that progressively refined Islamic finance practices. The emergence of full-fledged Islamic banks, Islamic subsidiaries of conventional banks, and Islamic windows led to a diverse industry (Kunhibava, 2012). Although Islamic finance assets now command a significant share of Malaysia's financial sector, the dual banking landscape continually tests how faithfully IFIs uphold religious principles amidst competitive pressures (Muhammad et al., 2016).

Shariah Non-Compliance and Its Impact

Shariah Non-Compliance (SNC) risks take the form of reputational harm, legal penalties, and financial losses. Failing to observe Shariah prohibitions undermines the central identity of IFIs (Rosly, 2020). Further, under the IFSA 2013, infringing Shariah compliance can lead to up to eight years of imprisonment and fines of up to twenty-five million Ringgit, or both, illustrating the legal severity of these infringements (Laws of Malaysia, 2013). SNC can also erode trust among customers. Many internal control gaps, such as inconsistent documentation and vague lines of responsibility for Shariah oversight, can contribute to non-compliance. Strong governance systems, Shariah audit capabilities, and robust training are crucial for mitigating these risks (Rosly, 2020; Usman et al., 2021)





METHODOLOGY

Research Design

This study adopts an exploratory qualitative design to examine how Malaysian IFIs cultivate Shariah compliance culture. It comprises three integrated phases: desk research, semi-structured interviews, and data analysis. The desk research involved examining academic literature, industry reports, and regulatory guidelines, thereby setting a foundation for understanding governance theories and corporate culture in Islamic finance (Creswell, 2009). Semi-structured interviews were conducted with IFI experts to investigate how Shariah compliance culture is defined and implemented, the challenges encountered, and possible strategies for enhancement. This flexible interview format encouraged participants to elaborate on their experiences beyond the core questions, yielding in-depth perspectives on Shariah compliance practices (Adams, 2015; McIntosh and Morse, 2015).

Data Collection Methods

Data was obtained primarily through semi-structured interviews and document analysis. Purposive sampling ensured that participants held direct responsibilities in Shariah governance, compliance, or strategic management. The sample size selection followed Creswell's (1998) recommendation, incorporating five participants, each representing either a full-fledged Islamic bank, an Islamic subsidiary, or an Islamic window, was selected to capture a diverse range of institutional models as illustrated in Table 1.

Table 1: List of Participants, Bank Code, and Category

No	Participant	Bank Code	Bank Category	Designation
1	Respondent A	Bank A	Full Fledged Islamic Bank	Group Chief Social Finance Officer
2	Respondent B	Bank B	Islamic Subsidiary	Head of Shariah Governance
3	Respondent C	Bank C	Islamic Subsidiary	Country Head of Shariah
4	Respondent D	Bank D	Full Fledged Islamic Bank	Chairman of Shariah Committee
5	Respondent E	Bank E	Islamic Window	Executive Director or Head of Islamic Banking

Interviews ranged between 45 and 70 minutes and were conducted in-person or online to accommodate participants' schedules. The confidentiality of respondents and their institutions was safeguarded by using pseudonyms (Bryman, 2016). A thematic analysis approach, as outlined by Braun and Clarke (2006), was applied to the interview transcripts. This process involved iterative coding, the identification of emergent themes, and a thorough review of these themes to generate a comprehensive interpretation of participants' opinions on current Shariah compliance practices, encountered challenges, and recommended solutions.





Interview Question

Open-ended questions were used to elicit participants' lived experiences and reasoned perspectives in their own words, enabling depth, nuance, and the emergence of unanticipated insights, while the interview guide ensured systematic coverage of domains central to the study (Albudaiwi, 2017). The questions were grouped into: (1) explore interpretations and current practices of Shariah compliance culture; (2) identify common and institution-specific challenges to cultivate a consistent culture across Malaysian IFIs; and (3) surface actionable strategies to strengthen Shariah compliance and ethical alignment. Neutral prompts and follow-up probes were used where necessary to clarify and extend responses. The interview questions that guided this inquiry are provided in the appendix, serving as a detailed reference for the structure and focus areas of the data collection process.

Document Analysis

Secondary data were systematically reviewed to highlight any differences between the theoretical aspects of Shariah compliance culture set out in SGPD 2019 and the practical steps detailed by participants during the interviews. This procedure involved document analysis, coding, and thematic techniques, akin to the methods used for processing interview data (Braun & Clarke, 2006). Comparisons of the policy and regulatory expectations against actual institutional practices offered insights into how closely IFIs align with official guidelines and where they experience significant gaps or obstacles.

Ethical Considerations

The study observed recognized ethical standards by informing participants about the study's objectives, ensuring they provided informed consent, and upholding the confidentiality of personal data and organisational identities (Creswell, 2013). All data were stored securely, and only the researcher had access to the recorded interviews and transcripts. Statements used in the final analysis were anonymised to protect participant privacy and institutional interests.

DISCUSSION AND FINDINGS

Analysis of the interview data yielded four central themes that characterise the development of Shariah compliance culture in Malaysian IFIs: Shariah Compliance Culture as an overarching concept, Leadership and Governance as a driving force for ethical direction, Implementation Strategies for integrating Shariah into daily operations, and the Role of Committees as institutional custodians. These themes emerged through a careful review of participants' experiences and reflect how Shariah principles are adopted, interpreted, and sustained within diverse IFI settings.

The Concept of Shariah Compliance Culture

Participants described a distinct concept of Shariah compliance culture in Malaysian IFIs that reflects a diverse array of approaches and priorities. These perspectives range from broad, strategic alignments with Islamic economic principles to more focused, operational integrations of Shariah standards in daily activities.





Respondent A adopts a macro-level orientation, positioning Islamic finance within broader objectives of Islamic economics principles. As articulated by a respondent A:

"Shariah compliance culture means adopting a holistic approach to align Islamic banking with broader Islamic economics, including wealth distribution, financial inclusion, and ethical practices beyond regulatory requirements."

On the other hand, Respondent C, D, and E focus on operational alignment by systematically embedding Shariah principles into each product, transaction, or policy.

Respondent B strives to foster an internalised commitment to Shariah values by treating compliance as a reflection of faith and personal accountability. Respondent B describes this approach as:

"... a belief in a set of values, prioritising Shariah compliance, which translates into behaviour and day-to-day operations."

These multiple perspectives suggest a multifaceted understanding of Shariah compliance, ranging from strategic deliberations at the highest level to concrete procedures guiding everyday activities.

Interpretations of SGPD 2019

The transition from Shariah Governance Framework 2010 (SGF 2010) to SGPD 2019 exhibits a stronger emphasis on senior leadership accountability and consistency across organisational layers. The shift has increased consistency and placed board-level members under greater scrutiny. Respondent A sees SGPD 2019 as more prescriptive and effective, while Respondent D views it as complementary to SGF 2010, which already laid the foundation for a "holistic" compliance culture. This evolution of regulatory focus highlights that both frameworks share the goal of embedding Shariah principles into every organisational layer, though SGPD 2019 promotes a top-down approach with clearer leadership obligations.

Leadership and Governance

Leadership emerged as the decisive factor in maintaining or undermining Shariah compliance culture. Participants highlighted how senior management's visible support for Shariah compliance sets the tone for staff at lower levels. Respondent D ties leadership performance reviews to compliance Key Performance Indicators (KPI), ensuring managerial decisions factor in ethical considerations rather than treating compliance as a peripheral exercise. On the other hand, respondent E mentioned the significance of open engagement between boards, Shariah committees, and operational heads, ensuring consistent interpretation and adherence to Shariah principles across departments. As Respondent E notes:

"Leadership is critical. If the highest management does not support Islamic finance, other departments will not prioritise it. Engagement sessions between the Shariah committee, board, and senior management ensure alignment."





These diverse yet aligned approaches underscore leadership's essential role in embedding a Shariah-compliant ethos, balancing ethical governance with practical execution.

Implementation Strategies

The approaches to implement Shariah compliance culture vary. Most of IFIs prioritize training and awareness, ranging from role-specific programs for front-liners to specialised leadership seminars. Others build Shariah considerations into KPIs so that employees see a direct link between compliance and career advancement. Respondent C highlights communication strategies such as weekly reminders, e-learning modules on compliance updates, and “speak-up” initiatives that allow staff to raise concerns without fear. Respondent D reinforces these efforts through system-based compliance pop-ups, a creative way to provide on-the-job reminders and ensure consistent adherence. These embedded procedures help minimise unintentional oversights.

Role of the Shariah Committee and Key Organs

The Shariah Committee within Malaysian Islamic banking institutions plays a pivotal role in ensuring Shariah compliance across strategic and operational levels. According to Respondent A, the committee acts as the “custodian of Shariah compliance” across all organisational levels. Meanwhile, Respondent B highlights the integration of Shariah principles into governance frameworks at the board level, reinforced by regular audits. As Respondent B notes:

"The Shariah committee sets values at a board level and ensures alignment across the organisation.....Control functions like audit and compliance ensure day-to-day governance."

Respondent E illustrates the committee's practical influence by transitioning staff benefits from conventional insurance to Takaful coverage, showcasing its impact on decision-making. By bridging high-level governance with daily operations, the committee ensures consistent adherence to Islamic principles, fostering a robust compliance culture.

Challenges in Developing a Consistent Shariah Compliance Culture

The development of a consistent Shariah compliance culture encounters multifaceted challenges, encompassing operational, organisational, and external factors. A recurring dilemma is the tension between commercial objectives and Shariah imperatives. Although management is entrusted as moral trustees (Muneeza et al., 2014), an overemphasis on return on investment can sometimes overshadow ethical obligations. Another concern involves communication barriers in hierarchical structures, which may prevent junior employees from voicing Shariah-related concerns (Denison & Mishra, 1991). Respondent D pointed out that employee alignment with Shariah principles is an ongoing difficulty, exacerbated by high staff turnover and the hiring of individuals unfamiliar with Islamic finance, as noted:

"...Awareness remains below expectations due to staff turnover and lack of Shariah backgrounds among new hires. Training gaps also hinder consistent implementation".





Institution-specific challenges arise in subsidiaries that must adhere to conventional parent-company priorities, weakening the autonomy required to fully implement Shariah principles. Respondent C mentioned:

"Subsidiaries face challenges where the conventional parent feels Shariah compliance is not their responsibility, limiting the subsidiary's ability to fully implement compliance measures."

Meanwhile, the dual banking landscape in Malaysia, coupled with varying global interpretations of Shariah, demands deliberate balancing strategies that reconcile authentic adherence to Shariah principles with operational efficiency.

Proposed Strategies for Overcoming Challenges

A holistic strategy is essential for internalising Islamic ethical imperatives and ensuring organisational behaviours align with Shariah values. Institutions can nurture authentic Shariah compliance by reassessing existing products to eliminate “replication” patterns and establishing new, truly Shariah-based offerings (Laldin & Furqani, 2016). Comprehensive and continuous education programs for staff, from entry-level employees to senior executives, can create a robust “knowledge ecosystem” as Respondent D suggests:

"Training should be role specific. For example, frontliners need practical knowledge about products, while higher management focuses on strategic alignment with Shariah."

Institutions also benefit from adopting leadership accountability mechanisms that integrate Shariah compliance into senior management KPIs and performance reviews. Conducting periodic “cultural assessments” of whether organisational norms align with Shariah objectives is recommended, as is refining governance systems so that Shariah boards have sufficient authority and resources. Expanding participation in socially beneficial or environmentally sustainable investments, aligned with *maqasid al-Shariah*, helps ensure that profit motives do not overshadow moral values (Al-Salem, 2009). Encouraging transparency with a whistleblowing channel in line with Islamic principles of accountability, as suggested by Respondent C, can facilitate early detection of non-compliance issues. Ultimately, collaborative engagement with regulatory bodies is vital. The strategy of active interaction with BNM allows IFIs to contribute insights and propose enhancements to the regulatory framework. By doing so, they ensure that guidelines remain realistic and supportive, reflecting the practical challenges of implementing Shariah principles. As Respondent B points out:

"Regulatory bodies provide realistic guidelines and conduct audits to refine governance structures".

Defining Shariah Compliance Culture

Shariah Compliance Culture represents a fundamental framework that shapes the ethical and operational landscape of IFIs. This comprehensive concept encompasses the collective values, norms, practices, and behaviours that ensure adherence to Islamic principles and laws within organisational structures. The culture manifests itself through various dimensions, permeating the organisation's vision, operations, decision-making processes, and policies.





A deep and comprehensive definition of Shariah Compliance Culture emerges from this analysis: It is a holistic organisational framework that integrates Islamic principles, ethics, and jurisprudence into corporate structures, fostering an environment where business operations, governance, and interactions align with the moral, legal, and spiritual tenets of Shariah. This culture prioritises ethical behaviour, accountability to God (Allah), and a commitment to social justice, promoting sustainable and fair practices for all stakeholders.

RECOMMENDATIONS

Instilling a robust Shariah compliance culture in Malaysian IFIs requires a comprehensive framework that addresses both shared and institution-specific challenges. Table 2 highlights how continuous learning, leadership engagement, and aligned incentives encourage the alignment of daily operations with Shariah principles. Ongoing training initiatives, whether virtual or in-person, help reduce knowledge gaps and enhance role-specific expertise, as respondents A and D emphasize.

Table 2: Thematic Analysis of Findings Three

Theme	Respondent A	Respondent B	Respondent C	Respondent D	Respondent E
Continuous Learning and Development	Mix of virtual and physical training sessions	Certification programs (e.g., Islamic Finance Champions)	Effective programs with assessments and discussions of common mistakes	Role-specific training (front-line staff vs. higher management)	Both virtual and physical training, emphasis on physical sessions
Leadership Engagement and Exemplification	Leaders exemplifying compliance through actions	Strong commitment, communication, and policy development	Setting clear expectations, providing resources, rewarding compliance efforts	Actively driving compliance, aligning objectives with Shariah principles	Visibly supporting Shariah compliance
Incentive Alignment and Performance Integration	-	Carrot-and-stick approach	Aligning staff incentives with compliance goals	Integration of compliance into KPIs	-
Structural Adaptation and Governance Enhancement	Transparent governance, integrating compliance into operational frameworks	Developing specific frameworks for unique structures	Strengthening collaboration between subsidiaries and parent institutions	Improving structural alignment to prioritise compliance	Policy alignment





Innovation and Ethical Product Development	Financial inclusion initiatives	-	-	Innovative tools like compliance pop-ups	Incorporating VBI as a KPI
Open Communication and Transparency	Enhancing clarity in policies	Clear communication	Consistent messaging, fostering speak-up culture	-	-
Cultural Integration and Value Alignment	Aligning new hires with cultural values through targeted recruitment and orientation	-	-	-	-

Leadership exemplification further underscores the importance of integrating Shariah compliance into decision-making processes, with clear performance metrics and resource allocation reinforcing its significance across all organisational levels. Visible leadership commitment catalyses ethical behaviour and fosters a speak-up culture in which employees are encouraged to report possible breaches.

Embedding Shariah values into performance reviews, underscores that compliance is integral to professional success, while transparent governance ensures all units adhere to consistent standards. Innovations in product development and technology also sustain ethical financing by enabling real-time adherence to Shariah rules. Aligning recruitment strategies with faith-based imperatives, combined with structured orientation, helps new hires internalise institutional values from the outset, thereby fortifying a continuous culture of Shariah compliance and ethical stewardship.

CONCLUSION

This paper addressed three objectives and demonstrated how each was achieved. First, it explored the understanding and current practices of Shariah compliance culture in Malaysia IFIs by synthesising the literature and SGPD 2019 and by analysing semi-structured interviews with practitioners across full-fledged Islamic banks, Islamic subsidiaries, and Islamic windows. The analysis showed that Shariah compliance culture is conceived along strategic, operational, and internalised-value dimensions, with leadership tone, governance mechanisms, and Shariah committee oversight shaping day-to-day practices. Second, it identified common and institution-specific challenges, including tensions between commercial targets and religious obligations, uneven leadership commitment, knowledge gaps and staff turnover, hierarchical communication barriers, constraints faced by subsidiaries within conventional groups, and ambiguities stemming from the dual banking landscape and divergent interpretations. Third, it proposed practical strategies to address these challenges: role-specific and continuous training,





aligning incentives and KPIs with Shariah objectives, strengthening governance and Shariah committee authority, instituting transparent speak-up channels and periodic cultural assessments, engaging proactively with the regulator, and prioritising Shariah-based (rather than replicated) product development. Collectively, these findings show that embedding an authentic Shariah compliance culture is achievable when ethical leadership, coherent governance, and organisational learning are integrated across strategic and operational levels, thereby fulfilling the study's aims and offering a viable roadmap for Malaysian IFIs.

This study has limitations that also point to avenues for future inquiry. Its Malaysian focus and cross-sectional, qualitative design constrain generalisability and causal inference, and reliance on interviews and documents may introduce selection and social-desirability biases. Future research should extend beyond a single jurisdiction to compare how distinct legal architectures and cultural settings shape the evolution of Shariah compliance culture across regions. Longitudinal and mixed-methods designs could clarify how leadership turnover, regulatory shifts, and technological advancements influence practices over time. By deepening and broadening scholarly inquiry, future efforts can help ensure that Islamic finance remains both ethically driven and practically relevant, upholding its distinct identity while adapting to the demands of a rapidly changing global financial landscape.

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APPENDIX: Interview Question

- 1. Explore the interpretations and current practices of Shariah Compliance Culture.**
 - 1.1. How do you interpret the concept of Shariah compliance culture as defined by BNM in the SGPD 2019?
 - 1.2. In your opinion, in what ways can an Islamic financial institution effectively instil and promote Shariah-compliant behaviour across all levels of the organization? Can you provide an example on your organisation on how shariah compliance culture being instil and promote?
 - 1.3. Can you elaborate on the significance of adopting an appropriate 'tone from the top' in promoting Shariah compliance culture? How does leadership influence adherence to Shariah principles? Is there any internal policy in your institutions being made in promoting Shariah Compliance Culture?
 - 1.4. What roles do the Shariah Committee, and other key organs play in promoting and maintaining a strong Shariah compliance culture within your organization?
 - 1.5. In your view, what are the key components of a robust Shariah compliance culture in Islamic financial institutions?
 - 1.6. How is Shariah compliance communicated and embedded in the daily operations of your organization?
 - 1.7. In your opinion, why does the SGF 2010 emphasize a holistic culture of Shariah compliance with a strong focus on management's role in promoting Shariah principles, while the SGPD 2019 shifts to foster a Shariah compliance culture by adopting an appropriate 'tone from the top'? Which approach do you think more effectively strengthens and empowers Shariah compliance within an IFI?

- 2. Identify common and institution-specific barriers to cultivate a consistent shariah compliance culture in Malaysia IFIs.**
 - 2.1. What are the main challenges your institution faces in fostering a consistent Shariah compliance culture?
 - 2.2. How does your institution reconcile differences between conventional financial practices and Shariah compliance requirements?
 - 2.3. In what ways do organizational structures and management practices influence the development of Shariah compliance culture in your institution?
 - 2.4. Can you describe any institution-specific factors that hinder the implementation of a consistent Shariah compliance culture?
 - 2.5. How do regulatory and external factors impact the establishment of a consistent Shariah compliance culture in your institution?

- 3. Actionable strategies to strengthen Shariah compliance and ethical alignment in Malaysia IFIs.**
 - 3.1. What strategies do you recommend for overcoming common barriers to establish a robust Shariah compliance culture?
 - 3.2. How can institutions address their unique, institution-specific challenges effectively?
 - 3.3. What role can leadership and top management play in fostering a strong Shariah compliance culture?





- 3.4. How important is staff training and development in enhancing Shariah compliance, and what types of training are most effective?
- 3.5. Can you suggest ways to improve the Shariah governance framework within institutions to better support compliance culture?
- 3.6. How can Islamic financial institutions balance profit objectives with ethical and Shariah compliance considerations?
- 3.7. In what ways can regulatory bodies support institutions in overcoming these barriers?
- 3.8. How can enhancing Shariah compliance culture contribute to maintain or gaining a competitive edge in the financial industry?

