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SHARIA GOVERNANCE AND REGULATORY FRAMEWORKS IN ISLAMIC FINANCE: A SYSTEMATIC QUALITATIVE REVIEW OF INSTITUTIONAL AND REGULATORY PERSPECTIVES

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ABSTRACT

Objective: This study aims to synthesize and interpret the conceptual development of Sharia governance and regulatory frameworks in Islamic finance through a systematic review of high-quality academic literature. This study seeks to identify conceptual patterns, regulatory dynamics, and implementation challenges that shape the evolution of Sharia governance in diverse jurisdictions.

Research Design & Methods: This study uses a systematic qualitative literature review approach to scientific articles indexed in Scopus during the period 2009–2025. The selection process was carried out through stages of identification, screening, and inclusion based on criteria of thematic relevance, journal quality, and conceptual contribution. Data were analyzed using thematic synthesis to group findings into key conceptual themes related to the definition of Sharia governance, regulatory frameworks, and contemporary implementation dynamics.

Findings: The results of the study show that Sharia governance does not have a single universal definition, but rather develops as a contextual and dynamic institutional concept. Early literature positioned it as a mechanism of normative compliance, while recent studies place it as a hybrid governance system involving interaction between Sharia authorities, state regulators, and international standards. The findings also reveal ongoing tensions between the independence of Sharia councils and the need for regulatory integration, as well as the increasing role of maqāṣid al-sharīʿa in expanding the orientation of Sharia governance from formal compliance to broader socio-economic objectives.

Implications & Recommendations: Practically, this study recommends strengthening the design of co-regulation-based Sharia governance that can bridge normative legitimacy and regulatory stability. In terms of policy, harmonization of standards needs to be understood as an adaptive process, not a uniform formal convergence.

Contribution & Value Added: This study provides a conceptual contribution by positioning Sharia governance as an integral part of modern institutional governance theory, as well as enriching the Islamic finance literature through a critical synthesis across disciplines and jurisdictions.

Keywords: Sharia governance, Islamic finance, regulatory frameworks, institutional governance.

JEL codes: G21, G28, K22.
Article type: research paper

INTRODUCTION

The development of the Islamic finance industry over the past two decades has shown rapid and widespread growth across jurisdictions, both in Muslim-majority and non-Muslim countries. Islamic finance is no longer positioned as an alternative financial system based solely on religious values, but has become part of a complex, digitized, and highly regulated global financial system. In this context, Sharia governance has emerged as a crucial element that distinguishes Islamic finance from conventional financial systems, as it serves to ensure Sharia compliance not only at the product level, but also in institutional governance, decision-making processes, and regulatory structures (Ayub et al., 2024). Various studies show that weak Sharia governance regulations can trigger reputational risks, inconsistencies in fatwas, and conflicts between Sharia principles and the demands of modern financial markets operating within different national legal systems, with varying approaches to regulation, Sharia council authority, and compliance standards. These differences create fragmentation in Sharia governance, which impacts investor confidence, industry stability, and the institutional legitimacy of Islamic finance at the global level (Ahmed et al., 2017; Apaydin, 2018). Therefore, a comprehensive understanding of how Sharia governance is conceptualized and implemented within diverse regulatory frameworks is an urgent academic and practical necessity.

The literature on Islamic finance shows that the main challenges in Sharia governance lie not only in the substance of Islamic law, but also in the design of regulations and the roles of the institutional actors involved (Mansour & Bhatti, 2018). State regulators, national Sharia councils, internal Sharia supervisory boards, and international standardization bodies such as AAOIFI often have conflicting authorities and interests. This is evident in the debate over the unification of Sharia standards, where some academics view global standardization as a necessity to improve market efficiency and trust, while others emphasize the importance of local context and national legal sovereignty (Ahmed et al., 2017; Alkhan & Hassan, 2025). Furthermore, the issue of product regulation, such as tawarruq, derivatives, murabahah, and profit-sharing investment accounts, highlights the tension between financial innovation and Sharia compliance (Abumustafa & Al-Abduljader, 2011; Ahmed & Aleshaikh, 2014; Bhatti et al., 2025). Empirical studies also show that variations in Sharia governance models—whether state-centric, as in Malaysia, or market-driven, as in some Middle Eastern countries—have direct implications for the effectiveness of Sharia supervision and compliance (Al-Saadi et al., 2022; Apaydin, 2018). However, the existing literature is still scattered, sectoral, and tends to focus on specific case studies, thus failing to provide a complete conceptual synthesis of the relationship between regulation, actors, and Sharia governance practices in Islamic finance.

In the contemporary context, Sharia governance faces new challenges triggered by regulatory reforms, financial market globalization, and the digitalization of Islamic financial services. The emergence of Sharia fintech, the use of digital technology in the fatwa process, and the expansion of cross-border financial products have broadened the scope of Sharia governance beyond the traditional framework (Hidayati et al., 2023; Yas, 2023). Additionally, issues such as international arbitration, dispute management, insolvency based on Islamic principles, green finance, and crypto assets demand more dynamic regulatory adaptation and Sharia interpretation (Farah & Hattab, 2020; Hafiz et al., 2025; Katterbauer et al., 2023). A number of studies also link Sharia governance to normative Islamic objectives such as maqasid al-sharia, particularly in the context of financial inclusion, microfinance, zakat, and waqf (Alkhan & Hassan, 2025; Mukhlishin et al., 2024). However, this maqasid approach is often not systematically integrated into formal regulatory and governance frameworks. As a result, there is a gap between Sharia normative ideals and regulatory practices in the field. This condition highlights the need for studies that are able to map the evolution of Sharia governance longitudinally and across themes, as well as identify recurring structural challenges in Islamic finance literature.

Although the literature on Sharia governance and Islamic finance regulation continues to grow, most studies are still partial, normative, or focused on specific countries and products. To date, there has been little research that systematically synthesizes how Sharia governance is conceptualized, operationalized, and regulated in various jurisdictions and how the roles of actors, challenges, and reform dynamics interact with each other. The absence of a comprehensive qualitative synthesis makes it difficult to develop an integrated conceptual framework that can be used by academics, regulators, and practitioners. Therefore, this study aims to answer the key questions: how Sharia governance is understood and applied in Islamic finance literature; what regulatory and institutional frameworks shape these practices; the roles of key actors in their implementation; the regulatory challenges and gaps identified; and how Sharia governance has evolved in response to contemporary reforms and challenges. Using a systematic qualitative literature review approach, this study claims novelty by presenting a cross-context thematic synthesis that not only maps research trends but also builds an integrative conceptual understanding of Sharia governance as a dynamic governance system in global Islamic finance.

LITERATURE REVIEW

Conceptualization of Sharia Governance in Islamic Finance

Islamic finance literature generally positions Sharia governance as a fundamental pillar that distinguishes the Islamic financial system from the conventional financial system, not only in terms of legal compliance, but also in terms of ethics and normative Sharia objectives. Archer & Karim (2009) view Sharia governance as an institutional mechanism designed to manage Sharia non-compliance risk, particularly in the context of complex profit-sharing products. This view emphasizes the function of Sharia governance as a risk mitigation tool and protection of fund holders' interests, thus placing it within a functional and prudential corporate governance framework. In contrast, Farook & Farooq (2011) expand this conceptualization by emphasizing the dimensions of incentives and regulatory structures, in which Sharia governance is not only seen as a supervisory mechanism, but also as a system that shapes institutional behavior through appropriate regulatory and governance designs.

In more operational literature, Sharia governance is often reduced to the existence and role of the Sharia Supervisory Board (SSB) as the main actor in the Sharia compliance process. Al-Saadi et al. (2022) show how the implementation of the Sharia governance module in Bahrain focuses on the structure, independence, and function of the SSB as the center of Sharia decision-making. This approach places Sharia governance within a relatively narrow institutional framework, where governance effectiveness is highly dependent on the capacity and authority of the Sharia board. However, this actor-based approach has been criticized for tending to ignore broader institutional factors, such as the power relations between regulators, bank management, and state religious authorities. Cross-jurisdictional comparisons show that the conceptualization of Sharia governance is strongly influenced by national legal systems and regulatory philosophies. Apaydin (2018) shows that in countries with strong and centralized political regimes, such as Malaysia and the United Arab Emirates, Sharia governance is constructed as a state instrument to maintain the stability and legitimacy of the Islamic financial system. In this context, Sharia governance is top-down and integrated into the state regulatory framework. Conversely, in jurisdictions with a more decentralized approach, the role of non-state institutions and international standards becomes more dominant (Silva et al., 2024). This variation reinforces the argument that Sharia governance is not a single concept, but rather a spectrum of governance formed by the interaction between Sharia norms, legal structures, and economic interests.

A prominent conceptual debate in the literature concerns the tension between standardization and Sharia plurality. Ahmed et al. (2017) emphasize that the absence of unified Sharia governance standards has the potential to undermine the credibility of the Islamic finance industry globally, especially in the context of international markets. However, this argument is challenged by the view that plurality of interpretation is an inherent characteristic of Islamic fiqh, and that excessive standardization efforts could erode the flexibility and local relevance of Sharia governance (Yilmaz & Shipoli, 2024). This debate shows that Sharia governance is at the crossroads between the demands of global efficiency and local normative legitimacy. As the literature has developed, an approach has emerged that links Sharia governance to maqasid al-sharia, which views Sharia governance as a means to achieve the substantive goals of Islam, such as social justice, protection of property, and economic sustainability. Alkhan & Hassan (2025) assert that the effectiveness of Sharia governance should not only be measured by formal compliance with Sharia contracts, but also by its contribution to public welfare. Although this maqasid-oriented approach offers significant conceptual expansion, the literature is still limited in systematically integrating the maqasid framework into the regulatory design and institutional practices of Sharia governance.

Overall, existing studies show conceptual fragmentation in understanding Sharia governance, both in terms of definition, focus of analysis, and the theoretical framework used. The literature tends to be divided between normative, institutional, and pragmatic approaches, without any comprehensive synthesis. The main research gap lies in the absence of a systematic study that integrates these various perspectives to explain how Sharia governance is conceptualized, operationalized, and evolves in various Islamic finance regulatory contexts. This condition underscores the urgency of conducting a systematic qualitative literature review to build a more complete and integrated conceptual understanding of Sharia governance in Islamic finance.

Regulatory Framework and Standardization of Sharia Governance in Islamic Finance

The regulatory framework is a key element that shapes how Sharia governance is articulated and implemented in Islamic finance practices. The literature shows that regulation not only functions as a supervisory instrument, but also as a mechanism that determines the power relations between the state, financial authorities, religious institutions, and Islamic financial institutions (Aris et al., 2013). In this context, Sharia governance is influenced by regulatory designs that govern institutional structures, Sharia decision-making processes, and accountability mechanisms towards stakeholders (Alam et al., 2022). Archer & Karim (2009) emphasize that regulatory uncertainty, particularly regarding profit-sharing investment products, can create ambiguity in responsibilities between bank management and Sharia authorities, which ultimately increases Sharia compliance risk.

The Islamic finance regulatory literature often classifies approaches to Sharia governance into several main models, such as centralized, decentralized, and hybrid models (Alam, 2021). The centralized model, as implemented in Malaysia, places national sharia authorities at the center of fatwa legitimacy and standardization, thereby creating consistency in practice among financial institutions (Awass, 2017; Oseni, 2016). This approach is praised for reducing fragmentation of interpretation and increasing legal certainty. However, a number of studies note that excessive centralization has the potential to limit the independence of institutional Sharia councils and narrow the scope for ijtihad (Apaydin, 2018). Conversely, the decentralized model gives greater autonomy to individual financial institutions to establish and manage their own Sharia governance, but it is often criticized for triggering inconsistencies in standards and the risk of regulatory arbitrage (Ahmed et al., 2017). At the international level, the role of standardization bodies such as AAOIFI and IFSB has become a major focus of academic debate. Ahmed et al. (2017) argue that the unification of Sharia standards is necessary to support the integration of global Islamic financial markets and increase cross-border investor confidence. This view is reinforced by studies showing that differences in regulations and Sharia contract standards, such as murabahah and tawarruq, can lead to legal uncertainty and market inefficiency (Ahmed & Aleshaikh, 2014; Bhatti et al., 2025). However, critical literature challenges the assumption that global standardization always results in better governance. Yas (2023) asserts that the adoption of international standards often requires negotiation with national legal frameworks, resulting in hybrid practices that are not entirely consistent either normatively or regulatively.

Cross-sector comparisons also show that Sharia governance regulatory frameworks are not uniform across Islamic finance industries. Studies on international commercial arbitration and bankruptcy based on Islamic principles reveal the limitations of Sharia regulation when dealing with global secular legal systems (Farah & Hattab, 2020; Katterbauer et al., 2023). In this context, Sharia governance is often positioned as an interpretive principle rather than a binding regulatory framework, raising questions about its effectiveness in protecting the interests of the parties. Furthermore, regulations in the non-banking sector, such as zakat, waqf, and Islamic social finance, show significant variations in approach, with different levels of state involvement (Mukhlishin et al., 2024). Contemporary developments, particularly digitalization and Sharia fintech, further challenge the existing regulatory framework. Hidayati et al. (2023) show that fatwas and Sharia regulations often lag behind technological innovations, creating a gray area in Sharia supervision. This condition highlights the limitations of a reactive and fragmented regulatory framework, as well as the need for a more adaptive and principle-based approach. Although the literature has identified various regulatory models and standardization efforts, existing studies tend to be partial and contextual. A significant research gap lies in the lack of a systematic synthesis that can link regulatory models, standardization dynamics, and their implications for the effectiveness of Sharia governance across jurisdictions and sectors in Islamic finance.

Implementation Challenges and Contemporary Development Directions of Sharia Governance

Although the conceptual and regulatory framework of Sharia governance has developed significantly, the literature shows that its implementation in Islamic finance practice still faces various structural and institutional challenges. One of the main challenges is the gap between regulatory design and the operational reality of Islamic financial institutions. Archer & Karim (2009) identify that the complexity of modern financial products, particularly those based on profit sharing and hybrid financing, often exceeds the capacity of existing Sharia oversight mechanisms. This condition creates an over-reliance on formal contract interpretation, while the substantive aspects of Sharia compliance receive insufficient attention. The literature also highlights issues of independence and effectiveness of Sharia governance actors, particularly Sharia supervisory boards (Alam et al., 2023). Several studies show that the position of SSBs within the organizational structure of financial institutions has the potential to create conflicts of interest, especially when commercial pressures clash with Sharia principles (Ahmed et al., 2017). In the context of jurisdictions with weak or fragmented regulations, the role of SSBs is often symbolic, thereby reducing the legitimacy of Sharia governance as an effective governance mechanism (Ameraldo et al., 2025). This finding is reinforced by cross-country studies showing significant variations in the capacity, authority, and accountability of Sharia boards, which directly impact the quality of Sharia governance implementation (Apaydin, 2018).

Implementation challenges become even more complex when Islamic finance interacts with global legal and market systems. Farah & Hattab (2020) study on international commercial arbitration shows that Sharia principles often have to be negotiated within a secular legal framework, which is not always compatible with fiqh norms. Similarly, research on Islamic-based bankruptcy and insolvency reveals the limitations of Sharia regulations in providing effective dispute resolution mechanisms outside Muslim-majority jurisdictions (Katterbauer et al., 2023). This phenomenon raises fundamental questions about the extent to which Sharia governance can function as an autonomous governance system in a pluralistic global legal environment. Contemporary developments in Islamic finance point to the expansion of Sharia governance into new areas, such as Islamic social finance, sustainability, and digital finance (Napitupulu et al., 2024). Studies on zakat, waqf, and maqasid-based finance confirm that Sharia governance is increasingly seen as an instrument for achieving social and sustainable development goals, rather than merely contractual compliance (Hulwati et al., 2024; Mukhlishin et al., 2024). However, the literature also notes that the regulatory framework for these sectors is still inconsistent and often separate from the formal Islamic financial system, limiting its potential for integration and impact. Digitalization and Sharia fintech present new challenges and opportunities for Sharia governance. Hidayati et al. (2023) show that the process of producing fatwas and sharia supervision faces pressure to adapt to the speed of technological innovation, such as digital platforms, smart contracts, and crypto assets. The literature on crypto investment from an Islamic law perspective shows that the absence of a comprehensive Sharia regulatory framework can create legal uncertainty and reputational risks for the Islamic finance industry (Hafiz et al., 2025). This condition highlights the need for Sharia governance that is more adaptive, principle-based, and responsive to technological changes.

Overall, contemporary literature describes Sharia governance as a governance system in a transitional phase, facing the pressures of globalization, financial innovation, and sustainability demands. However, most studies are still sectoral, normative, or case study-based, and therefore unable to capture the thematic patterns and dynamics of the evolution of Sharia governance holistically. A notable research gap lies in the absence of a systematic synthesis that integrates implementation challenges and contemporary development directions into a single analytical framework. Therefore, a systematic qualitative literature review approach is crucial to consolidate fragmented findings and identify the trajectory of Sharia governance development in Islamic finance more comprehensively.

METHODS

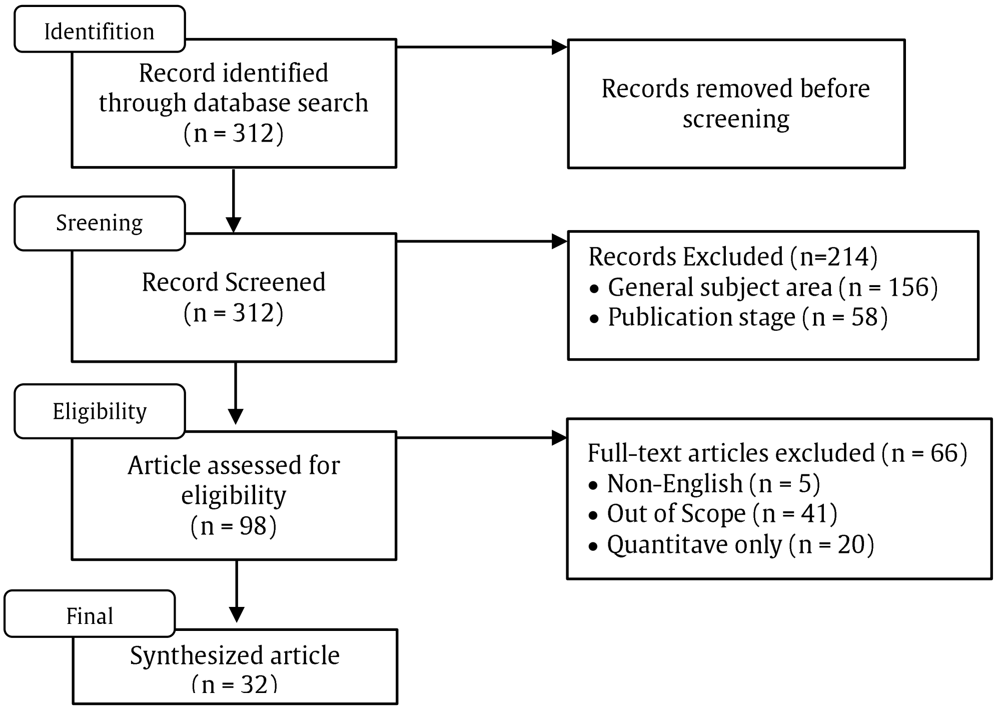
This study uses a systematic qualitative literature review (SQLR) approach to synthesize conceptual, regulatory, and implementative developments related to Sharia governance in Islamic finance. This approach was chosen because the issue of Sharia governance cannot be reduced to quantitative variables alone, but rather involves normative, institutional, and contextual constructs that develop across jurisdictions and time. Epistemologically, this study is based on an interpretive-constructivist paradigm, which views Sharia governance as the result of social and legal constructions formed through interactions between fiqh muamalah, state regulatory institutions, financial industry practices, and political and economic dynamics. Therefore, the meaning of Sharia compliance, the role of Sharia authorities, and the form of regulation are understood as dynamic, contextual, and diverse entities, rather than uniform universal concepts. This systematic qualitative approach allows researchers to conduct in-depth analysis of arguments, debates, and conceptual frameworks in the literature, while maintaining transparency and replicability through structured literature search and selection procedures.

The main database used in this study is Scopus, given its broad coverage of reputable journals (Q1 and Q2) in the fields of Islamic finance, law, governance, and regulation. Scopus was chosen for its ability to provide literature that has undergone a rigorous peer-review process and is internationally recognized, thus ensuring the academic quality and credibility of the sources analyzed. Thus, the use of Scopus enables this study to build a strong, up-to-date, and relevant literature synthesis with the global discourse on Sharia governance in Islamic finance. The literature search was conducted systematically by combining thematic and regulatory keywords using Boolean operators, including "Sharia governance" or "Shari'ah governance," "Islamic finance" or "Islamic banking," "regulation" or "regulatory framework" or "legal framework," "standardization" or 'AAOIFI' or "IFSB," and "Sharia supervisory board" or "compliance." This combination of keywords was designed to capture a broad spectrum of studies, ranging from the conceptualization of Sharia governance, regulatory and standardization design, to compliance and supervisory issues in Islamic finance practices in various jurisdictionsi.

To maintain the focus and relevance of the study, the literature search was limited to peer-reviewed journal articles published in English, covering the disciplines of Islamic finance, Islamic law, Islamic economics, and governance. In addition, the publication time frame was limited to between 2009 and 2025 in order to capture the dynamics of the conceptual and regulatory evolution of Sharia governance from its early institutionalization phase to contemporary developments marked by regulatory complexity and financial innovation. This limitation also enabled a longitudinal analysis of changes in the Sharia governance approach in a global context. In addition to keyword-based searches, this study also applied backward and forward citation tracking strategies to identify seminal articles and influential studies that are highly relevant but not directly accessible by the initial search strategy. To increase the transparency of the literature identification, screening, and inclusion process, the article selection flow is presented visually using a PRISMA diagram (Figure 1).

Data extraction in this study was conducted systematically by using analytical texts as the main unit of analysis. The data extracted included definitions and conceptualizations of Sharia governance, key theoretical arguments, descriptions of regulatory and standardization frameworks, and identification of challenges and dynamics of implementation in Islamic finance practices. This approach allowed researchers to capture the depth of meaning, normative logic, and institutional context contained in each article, rather than simply summarizing the findings descriptively.

Figure 1 Research sample selection process



Source: **Author elaboration (2025)**

Data analysis was conducted using an inductive thematic analysis approach through three main stages. In the open coding stage, researchers identified key concepts, terms, and arguments that appeared repeatedly in the literature, such as the independence of the Sharia supervisory board, regulatory harmonization, fatwa authority, Sharia compliance mechanisms, and the orientation of maqasid al-sharia. Next, in the axial coding stage, codes that have conceptual relevance are grouped into broader categories, such as the relationship between the national legal system and the design of Sharia governance regulations, or between international standards and local practices. In the selective coding stage, these main categories are synthesized into core themes that represent the conceptual, regulatory, and implementative structures of Sharia governance in Islamic finance. The analysis process is carried out iteratively using the constant comparison technique, both between articles and between country contexts, to identify common patterns as well as contextual variations in practice.

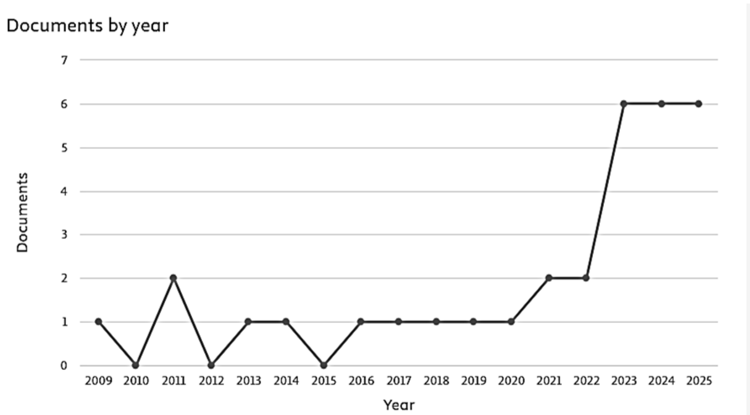
The thematic framework in this study was developed as a result of inductive synthesis from the thematic analysis process, rather than as a conceptual model that was established at the outset of the study. Through a process of gradual coding and abstraction, this study identified three main themes that are interconnected and collectively form the analytical structure of Sharia governance in Islamic finance. This approach ensures that the resulting thematic framework is truly rooted in the analyzed literature and reflects the dynamics and complexity of the existing academic discourse. The first theme is the conceptualization of Sharia governance, which reflects how the literature defines and frames Sharia governance as an institutional governance mechanism that integrates fiqh principles, organizational structures, and accountability systems. The main focus of this theme includes the role of Sharia supervisory boards, the maqasid al-sharia approach, and the paradigm shift from product-based compliance to system-based compliance. The second theme is the regulatory and standardization framework, which includes national and international regulations, the role of regulatory authorities and central banks, and the contribution of global standardization institutions such as AAOIFI and IFSB. The literature on this topic shows that there's tension between the push for global standard harmonization and the need to adapt to different legal systems and national contexts. The third theme is the challenges of implementation and contemporary evolution, which summarizes practical issues such as regulatory fragmentation, the independence of Sharia councils, regulatory arbitration, and the limitations of law enforcement, while also capturing the latest developments such as the digitization of Islamic finance, Sharia fintech, and the integration of sustainability principles.

Based on the resulting thematic synthesis, this study proposes an integrative thematic framework that views Sharia governance as a dynamic governance ecosystem, rather than merely a normative compliance mechanism. Within this framework, the conceptualization of Sharia governance serves as a normative and theoretical foundation that determines the orientation of Sharia values and principles. Regulation and standardization act as institutionalization mechanisms that translate these principles into formal rules, supervisory structures, and operational procedures. Meanwhile, the dimensions of implementation and contemporary evolution represent the empirical and adaptive realm, where the regulatory framework is tested, interpreted, and adapted to the realities of practice and changes in the global financial environment. This conceptual model emphasizes that the effectiveness of Sharia governance cannot be understood in isolation, but rather depends heavily on the degree of alignment between Sharia principles, regulatory design, and institutional capacity to respond to new challenges. Thus, the proposed thematic framework not only serves as a tool for synthesizing the literature, but also as a conceptual lens for understanding the dynamics of Sharia governance holistically and sustainably in contemporary Islamic finance.

RESULT

Scopus search results show that research on Sharia governance and regulatory frameworks in Islamic finance has undergone non-linear development throughout the period 2009–2025. In the early phase (2009–2014), the number of publications was relatively limited and sporadic, reflecting that the discourse on Sharia governance during that period still focused on fundamental issues such as product compliance, the legitimacy of Sharia contracts, and the basic role of Sharia supervisory boards in the Islamic banking system. This phase was in line with early literature that positioned Sharia governance as a normative extension of fiqh muamalah in the context of modern institutions. Entering the 2015–2020 period, publications began to show a more stable growth pattern, albeit still moderate. This marked a shift in the focus of the literature from micro-compliance issues to a broader discourse on regulatory design, the relationship between Sharia authorities and state regulators, and the role of international standards in shaping cross-jurisdictional Sharia governance. However, the number of publications during this period was still relatively limited, indicating that Sharia governance was not yet fully treated as an autonomous governance domain in Islamic finance.

Figure 2 Number of Publications per years



Source: **Author elaboration (2025)**

There has been a significant surge in the number of publications from 2021 to 2025, with a sharp increase particularly in the period 2023–2025. This trend shows that Sharia governance has evolved into a strategic issue that is gaining academic attention, in line with the increasing complexity of regulations, the globalization of Islamic finance, and the emergence of new challenges such as Sharia fintech, global standard harmonization, and demands for sustainable governance.

This pattern confirms that the study of Sharia governance is currently in a phase of consolidation and conceptual deepening, not just initial exploration.

In addition to quantitative growth, the evolution of Sharia governance studies is also reflected in shifts in the nature of publication outlets and thematic focus. In the early period, articles tended to appear in journals focused on Islamic law and Islamic banking, with an emphasis on contractual compliance and normative legitimacy. In contrast, publications in the 2021–2025 period increasingly appeared in journals focusing on governance, regulation, and interdisciplinary social sciences, reflecting an epistemic shift from a micro-compliance approach to an understanding of Sharia governance as a broader institutional governance system. This pattern reinforces the indication that the literature has not only grown in quantity but has also undergone significant conceptual deepening and reorientation, which forms the basis for identifying key themes in the subsequent analysis. In addition to the temporal distribution of publications, it is important to understand how the literature on Sharia governance in Islamic finance is spread across various academic sources. Mapping the sources of publications provides an overview of the disciplinary orientation, epistemic focus, and level of consolidation of this field of study. Analysis of source titles also serves to identify whether the discourse on Sharia governance is concentrated in certain journals or spread across the fields of law, finance, and governance. Therefore, Table 1 presents the distribution of journals that are most active in publishing articles related to Sharia governance and its regulatory framework based on Scopus search results.

Table 1 Title of Most Active Source in Journal

Source Title	TP	%	Publisher
Journal of Islamic Accounting and Business Research	4	12.9	Emerald
Arab Law Quarterly	3	9.7	Brill
Regulation & Governance	2	6.5	Wiley
Qualitative Research in Financial Markets	2	6.5	Emerald
Asian Journal of Accounting Research	2	6.5	Emerald
Revista de Gestão Social e Ambiental	2	6.5	UNINOVE
Journal of Banking Regulation	1	3.2	Palgrave Macmillan
Borsa Istanbul Review	1	3.2	Elsevier

Source: **Author elaboration (2025)**

Table 1 shows that publications on Sharia governance in Islamic finance are not dominated by one major journal, but are spread across various interdisciplinary academic outlets. Law-based journals, such as Arab Law Quarterly and Utrecht Law Review, are important contributors that highlight the normative, legal, and regulatory dimensions of Sharia governance. Meanwhile, journals in the field of finance and banking, including the Journal of Banking Regulation, Borsa Istanbul Review, and Journal of Risk and Financial Management, discuss more the implications of Sharia governance on institutional stability and regulatory compliance. The presence of governance and management journals, such as Regulation & Governance and Qualitative Research in Financial Markets, indicates that Sharia governance is increasingly positioned as an issue of institutional governance, not merely fiqh compliance. This distribution pattern reflects the interdisciplinary yet fragmented nature of the Sharia governance literature, which reinforces the need for a systematic qualitative literature review approach based on thematic synthesis to integrate the various conceptual and regulatory perspectives that exist.

Conceptualization of Sharia Governance

A synthesis of the literature shows that there is no single consensus on the definition of Sharia governance in Islamic finance. Instead, the literature constructs Sharia governance as a dynamically evolving concept, influenced by the national legal context, institutional structure, and stage of maturity of the Islamic finance industry in each jurisdiction. Early studies, particularly in the period 2009–2013, tended to view Sharia governance as a normative compliance mechanism that focused on verifying the conformity of financial products and contracts with the principles of fiqh muʿāmalāt, with the Sharia Supervisory Board (SSB) positioned as the main actor controlling such compliance (Archer & Karim, 2009; Aris et al., 2013). In this initial conceptualization, Sharia governance is understood as an institutional extension of fatwa authority, where the legitimacy of Islamic finance practices is highly dependent on the formal approval of the Sharia board regarding the structure of certain contracts and financial instruments (Alam, 2021; Ullah et al., 2018). This approach, although important in the early stages of institutionalization, is considered by some studies to have limitations because it tends to place Sharia compliance as an ex ante process that is legalistic and fragmented (Abumustafa & Al-Abduljader, 2011; Ahmed & Aleshaikh, 2014). Within this framework, Sharia governance has not yet been fully treated as an integral part of corporate governance and institutional risk management systems.

More recent literature shows a significant conceptual shift towards understanding Sharia governance as a comprehensive and integrated institutional governance system. Sharia governance is no longer limited to the functions of fatwa or product supervision, but encompasses organizational structure, decision-making processes, accountability mechanisms, and the relationship between internal Sharia authorities and external regulators (Al-Saadi et al., 2022; Farook & Farooq, 2011). In this conceptualization, Sharia governance is positioned on par with conventional governance frameworks, but with additional normative dimensions derived from Sharia principles. A number of studies emphasize that the integration of Sharia governance into the institutional governance framework is necessary to resolve conflicts of interest, increase transparency, and strengthen public trust in Islamic finance (Ahmed et al., 2017; Alkhan & Hassan, 2021). This conceptualization also expands the role of the Sharia board from merely providing normative legitimacy to becoming a governance actor that contributes to Sharia compliance risk management and ongoing supervision of Islamic financial institution operations. Another important dimension that emerges in the literature is the shift from a formal compliance approach to a maqāṣid al-sharīʿa orientation. Studies in this cluster view Sharia governance as a normative instrument to ensure that Islamic finance practices are not only contractually valid, but also aligned with substantive Sharia objectives such as justice, protection of public interests, financial stability, and socio-economic sustainability (Al-Ayyubi et al., 2023; Alkhan & Hassan, 2021). This maqāṣid approach broadens the horizon of Sharia governance evaluation from "whether the contract is halal" to "whether financial practices produce maslahat".

The literature also reveals significant normative debates regarding the independence and institutional position of Sharia councils. Some studies assert that the independence of SSBs is a key prerequisite for the legitimacy of Sharia governance, particularly to prevent the dominance of management or shareholder interests (Al-Saadi et al., 2022; Farook & Farooq, 2011). Cross-country regulatory analysis studies show that absolute independence is often difficult to implement in systems that place Sharia governance under the authority of state regulators or central banks (Apaydin, 2018; Yas, 2023). This tension reflects a structural dilemma between the autonomy of Sharia authorities and the need for regulatory coordination in modern financial systems. Thematic findings show that the conceptualization of Sharia governance has evolved from a narrow normative compliance model to a broader and more reflective institutional governance framework. However, the literature also reveals persistent conceptual fragmentation, both in terms of the definition, scope, and normative orientation of Sharia governance. This fragmentation confirms that Sharia governance is not a static or universal concept, but rather a governance construct that is continuously negotiated between fiqh principles, regulatory design, and the institutional realities of contemporary Islamic finance.

Regulatory and Standardization Frameworks

A synthesis of the literature shows that Sharia governance in Islamic finance is largely determined by the design of the regulatory framework and standardization mechanisms applicable in each jurisdiction. However, no universal regulatory model has been found. Instead, the literature shows a spectrum of approaches that reflect differences in legal systems, state institutional structures, and the level of regulatory intervention in Sharia authorities. Most studies classify Sharia governance regulatory frameworks into centralized and decentralized models. In centralized models, the state places national Sharia authorities either under the central bank or an independent institution as the final decision-makers in the interpretation and application of Sharia principles. Studies examining Malaysia and several GCC countries show that this model increases the consistency of fatwas, strengthens legal certainty, and facilitates the integration of Sharia governance with prudential supervision and financial system stability (Al-Saadi et al., 2022). In this context, Sharia governance is positioned as an integral part of the national financial regulatory architecture, not as a parallel mechanism (Alam, 2022).

Conversely, literature examining jurisdiction with a decentralized approach shows that the main authority of Sharia governance lies at the level of financial institutions through the Sharia Supervisory Board. This model is commonly found in countries with legal traditions that emphasize market autonomy and interpretive pluralism. Studies show that this approach provides greater flexibility for product innovation, but also increases the risk of fragmentation of standards, regulatory arbitrage, and weak cross-institutional coordination (Ahmed et al., 2017; Farook & Farooq, 2011). Thus, decentralization is understood as a double-edged sword in the literature on Sharia governance. Amidst this fragmentation, the role of international standardization bodies—particularly AAOIFI and IFSB—has become a prominent theme. Scopus literature consistently shows that international standards serve as normative and technical references, especially for jurisdictions that do not yet have an established Sharia regulatory framework. However, empirical findings show that the adoption of these standards is partial and selective. Many countries adopt general principles while modifying operational provisions to suit their national legal systems and domestic policy interests (Ahmed & Aleshaikh, 2014; Amuda & Al-Nasser, 2024). The literature also highlights the inherent tension between global harmonization and regulatory sovereignty. Several studies show that standardization efforts often face resistance due to differences in fiqh schools of thought, industrial structures, and national economic development priorities (Apaydin, 2018). As a result, global standardization does not produce complete uniformity, but rather a pattern of limited convergence that is gradual and negotiable.

Recent findings in post-2020 literature indicate an expansion of the regulatory function of Sharia governance beyond mere Sharia compliance. Regulators have begun to link Sharia governance to issues of consumer protection, systemic risk management, and sustainability. In this context, Sharia governance is treated as a governance mechanism that contributes to market confidence and the long-term stability of Islamic finance (Alkhan & Hassan, 2021; Tarazi & Abedifar, 2022). The results show that the regulatory and standardization framework of Sharia governance develops through a process of contextual adaptation. The literature does not point to the dominance of a single regulatory model, but rather to an understanding that the effectiveness of Sharia governance depends on a balance between standard harmonization, local legitimacy, and the institutional capacity of regulators.

Implementation Challenges and Contemporary Evolution

The third theme reveals that the effectiveness of Sharia governance is largely determined by structural and dynamic implementation challenges. Scopus literature consistently shows a gap between the normative design of the Sharia governance framework and the reality of institutional practices in Islamic finance. This gap is not only technical in nature, but also reflects institutional limitations and human resource capacity. One of the most frequently identified implementation challenges is the limited multidisciplinary competence of Sharia supervisory boards. Empirical studies show that although SSB members have scientific authority in fiqh muamalah, many of them lack integration with modern financial expertise, risk management, and prudential regulation (Al-Saadi et al., 2022; Aris et al., 2013). This condition limits the ability of Sharia governance to respond effectively to the complexity of contemporary financial products.

Issues of independence and conflicts of interest also emerge as major challenges. The literature shows that the practice of multiple board membership—where one Sharia scholar serves on multiple boards simultaneously—has the potential to undermine the quality of oversight and accountability (Alam et al., 2022; Farook & Farooq, 2011). Although some jurisdictions have imposed regulatory restrictions, their implementation remains inconsistent, meaning that governance risks remain significant (Krisch, 2022; Rothstein et al., 2013). In addition to structural challenges, post-2020 literature highlights the evolution of Sharia governance in the face of technological innovation and changes in the industrial landscape. The emergence of Sharia fintech, digital banking, and smart contracts presents new challenges for traditional oversight mechanisms (Chong, 2021). Studies show that existing Sharia governance frameworks are often reactive and lag behind the pace of technological innovation (Alkhan & Hassan, 2021; Boulanouar et al., 2024).

The literature also notes a normative shift towards integrating the principles of sustainability and maqāṣid al-sharīʿa. Sharia compliance is no longer understood solely as contractual compliance, but also as an evaluation of social, environmental, and risk distribution impacts. Several studies position this approach as a direction for the contemporary evolution of Sharia governance that is more substantial and value-oriented (Al-Ayyubi et al., 2023). However, this transformation still faces implementation limitations. Many institutions and regulators continue to prioritize legal certainty and system stability over a broader normative approach. As a result, the integration of maqāṣid and sustainability into Sharia governance tends to be incremental and experimental (Zain et al., 2025). The results show that Sharia governance is in a critical transition phase. Implementation challenges are not only obstacles, but also serve as drivers of conceptual and institutional evolution. The literature indicates that the future of Sharia governance will be determined by its ability to bridge the tension between regulatory stability, technological innovation, and increasingly complex normative demands.

DISCUSSION

This discussion interprets the findings of a systematic qualitative literature review by positioning Sharia governance as part of a broader institutional governance ecosystem in Islamic finance, rather than merely a stand-alone normative compliance mechanism (Apaydin, 2018; Archer & Karim, 2009). The literature synthesis shows that Sharia governance has evolved from a fiqh-centric approach to a hybrid governance framework that brings together Sharia norms, modern institutional structures, and state regulatory regimes in a complex arena of interaction (Al-Saadi et al., 2022; Farooq, 2022). This shift is in line with the development of contemporary governance theory, which emphasizes that financial governance is not only determined by formal rules, but also by power relations, normative legitimacy, and institutional capacity (Apaydin, 2018). The Q1 literature analyzed shows that the absence of a single definition of Sharia governance is not a conceptual weakness, but rather a reflection of the contextual nature of Islamic finance, which operates within a plurality of fiqh schools and national legal systems (Ahmed et al., 2017; Yas, 2023). Unlike conventional financial systems that developed within a relatively homogeneous secular legal tradition, Islamic finance grew in a layered normative environment, where religious, state, and market authorities negotiated with each other in shaping governance practices (Farah & Hattab, 2020). This perspective is consistent with the concept of institutional embeddedness, which asserts that governance designs are always embedded in specific social, political, and legal contexts (Apaydin, 2018; Oseni, 2016).

In this context, the role of international regulation and standardization—particularly those developed by AAOIFI and IFSB—is better understood as soft law instruments that provide a global epistemic reference framework, rather than deterministic harmonization mechanisms (Ahmed et al., 2017; Alkhan & Hassan, 2025). Scopus findings show that national regulators tend to adopt international standards selectively and adaptively, adjusting them to each country's domestic legal system, financial supervisory structure, and public policy priorities (Hidayah & Kamilah, 2024; Yas, 2023). This dynamic confirms that the harmonization of Sharia governance is asymmetrical and gradual, as also noted in Q1 literature on transnational regulation and legal pluralism (Apaydin, 2018; Farah & Hattab, 2020). The issue of the independence of the Sharia supervisory board has emerged as one of the most central points of debate in the discourse on Sharia governance (Al-Saadi et al., 2022; Karbhari et al., 2024). On the one hand, the independence of Sharia authorities is seen as the main source of religious legitimacy and credibility of Sharia compliance in the eyes of the public and stakeholders (Ahmed & Aleshaikh, 2014). On the other hand, the literature also highlights that excessive independence without regulatory integration has the potential to create fragmentation of oversight, inconsistency in fatwas, and regulatory arbitration across jurisdictions (Ahmed et al., 2017; Aris et al., 2013). This discussion reinforces the argument that a dichotomous approach between independence and state control is no longer adequate to explain the reality of contemporary Sharia governance (Apaydin, 2018).

Instead, Q1 literature increasingly points to the concept of co-regulation as a more realistic and sustainable governance model for Islamic finance (Al-Saadi et al., 2022; Oseni, 2016). Within this framework, Sharia authorities maintain their scientific and normative legitimacy, while state regulators provide a systemic oversight framework, law enforcement mechanisms, and protection of public interests (Farah & Hattab, 2020; Yas, 2023). This hybrid approach allows Sharia governance to function not only as an instrument of religious compliance, but also as an integral part of the stability of the national and global financial systems (Apaydin, 2018; Archer & Karim, 2009). The implementation challenges identified in the literature—such as conflicts of interest, limited capacity of Sharia boards, regulatory fragmentation, and inconsistent standards—need to be interpreted as characteristics of a governance system undergoing institutional transition, rather than as indicators of normative failure (Al-Saadi et al., 2022; Farooq, 2022). From the perspective of evolutionary governance theory, these challenges actually function as learning mechanisms that encourage regulatory adaptation and institutional design innovation (Apaydin, 2018). Therefore, the effectiveness of Sharia governance is more appropriately assessed dynamically and contextually rather than through static compliance measures alone (Ahmed et al., 2017).

Contemporary developments in Islamic finance have further broadened the spectrum of Sharia governance discourse, particularly with the emergence of digitalization, Sharia fintech, and demands for sustainable governance (Alkhan & Hassan, 2021; Tarazi & Abedifar, 2022). Technology-based innovations challenge the basic assumptions of Sharia governance, which have so far focused on physical institutions and ex-post oversight mechanisms (Hidayati et al., 2023). Recent Q1 literature indicates that future approaches to Sharia governance need to integrate risk-based governance and technology-aware supervision in order to remain relevant in a complex and rapidly changing digital financial ecosystem (Al-Saadi et al., 2022; Alkhan & Hassan, 2025). In the normative dimension, maqāṣid al-sharīʿa is increasingly positioned as an evaluative framework that bridges sharia principles with public policy objectives such as social justice, financial stability, and sustainability (Alkhan & Hassan, 2021; Bhatti et al., 2025). However, the literature also warns that the abstract use of maqāṣid without clear institutional translation has the potential to weaken legal certainty and regulatory accountability (Ahmed et al., 2017). Therefore, the main conceptual contribution of this synthesis is the assertion that maqāṣid al-sharīʿa should function as an evaluative lens that complements—rather than replaces—the formal regulatory framework of Sharia governance (Alkhan & Hassan, 2021; Farah & Hattab, 2020).

Overall, this discussion confirms that Sharia governance in Islamic finance has evolved into a dynamic, hybrid, and highly contextual governance system (Al-Saadi et al., 2022; Apaydin, 2018). Scopus-based findings indicate that the future of Sharia governance does not lie in the search for a universal model, but rather in the ability of governance designs to adapt to the complexity of global regulations, financial innovation, and the evolving demands of Sharia normative legitimacy (Ahmed et al., 2017; Yas, 2023). By positioning Sharia governance as an arena of interaction between religious principles and modern governance, this study makes a significant theoretical contribution to the development of contemporary Islamic finance (Alkhan & Hassan, 2025; Archer & Karim, 2009).

CONCLUSION

This study confirms that Sharia governance in Islamic finance has evolved from a normative compliance framework that is fiqh-centric to a dynamic, hybrid, and highly contextual institutional governance system. Through a systematic qualitative literature review based on Scopus, this study shows that Sharia governance cannot be understood as a universal model, but rather as the result of interactions between Sharia norms, institutional design, and national regulatory regimes.

The main findings indicate that the diversity of approaches to Sharia governance is not an obstacle to the development of Islamic finance, but rather reflects the adaptive capacity of this system in responding to legal plurality, public policy interests, and the dynamics of global financial markets. The role of international standards, such as those developed by AAOIFI and IFSB, is more appropriately positioned as an epistemic reference framework that complements—rather than replaces—national regulatory authorities.

The conceptual contribution of this research lies in understanding Sharia governance as a hybrid governance arena that bridges the normative legitimacy of Sharia with modern regulatory rationality. Future implications suggest that strengthening Sharia governance does not depend solely on formal harmonization, but rather on adaptive, integrated governance designs that are responsive to financial innovation and the sustainability demands of Islamic finance.

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