

Institutionalisation of Shariah Governance Practices: Loosely Coupling as a Catalyst to Evolutionary Change

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ABSTRACT

This study examines the institutionalisation of Shariah governance practices within Islamic financial institutions (IFIs), focusing on EMERALD an Islamic bank in Malaysia. Anchored in institutional theory and the processual framework of Burns and Scapens (2000), the study analyses how Bank Negara Malaysia (BNM) regulatory, Shariah principle and institutional demands converge within a complex institutional setting. Empirical data were collected through nine in-depth interviews, extensive document analysis, and NVivo-assisted thematic interpretation. This study investigates EMERALD's response to BNM's Shariah Governance Policy Document (SGPD) 2019.

The findings indicate that the institutionalisation of Shariah governance practices in EMERALD was undertaken to ensure Shariah compliance as a sustained institutional outcome. This evolutionary process involved the encoding of new rules under the Shariah Governance Policy Document (SGPD) 2019, internal enactment through interpretive mechanisms such as *ijtihad*, negotiated adaptation among institutional members, and gradual routinisation. Loose coupling functioned as a catalyst in this transformation, enabling compliance with regulatory expectations while preserving interpretive discretion and operational flexibility across governance realms.

The study contributes to the understanding of how Islamic financial institutions (IFIs) respond to competing institutional demands by adapting internal structures and building consensus to institutionalise Shariah governance practices aimed at compliance. It also underscores the importance of consultative regulatory approaches and internal capacity-building in embedding Shariah-compliant practices. These insights are pertinent for regulators and practitioners seeking to align religious obligations with effective institutional governance.

Keywords: Institutionalisation, Shariah governance, Institutional theory, Loose coupling, Shariah compliance.

INTRODUCTION

The evolution of Islamic banking in Malaysia has been both deliberate and adaptive, driven by the aspiration to align Shariah financial principles with internationally recognised standards of governance and accountability. At the heart of this evolution lies the institutionalisation of Shariah governance practices a structured process to ensure Shariah compliance in all financial operations, products, and activities. Ensuring this compliance is essential for maintaining both religious legitimacy and stakeholder confidence (Hasan and Asutay, 2011; Ginena, 2014). Rooted in Islamic principles, Shariah governance draws on *maqasid al-Shariah* and *ijtihad*, which introduce a distinct normative layer into institutional governance. Islamic financial institutions (IFIs) are therefore situated within a complex institutional setting shaped by regulatory mandates, religious doctrines, and

commercial pressures (Scott, 2014). This intersection of diverse influences requires governance systems that are both procedurally sound and interpretively flexible.

Although Malaysia is often cited as a global leader in Islamic finance, few empirical studies trace how Bank Negara Malaysia's latest Shariah Governance Policy Document (SGPD 2019) is operationalised within IFIs. Existing literature tends to focus on formal structures or regulatory compliance, with limited attention to the micro-processes by which governance reforms are enacted, interpreted, and internalised. This study addresses this gap by exploring how Shariah governance practices are institutionalised in EMERALD a pseudonym for an Islamic bank in Malaysia.

The investigation draws on nine semi-structured interviews with key personnel involved in Shariah governance, supported by extensive document analysis and NVivo-assisted thematic coding. Malaysia's regulatory evolution, particularly through SGF 2010 and SGPD 2019, has laid the groundwork for more formalised governance structures. However, the embedding of these structures into institutional routines is not uniform. EMERALD's experience reflects an adaptive pattern of change in which regulatory demands were addressed through negotiated compliance and strategic delay, subject to internal justification and institutional readiness. This form of institutional flexibility aligns with the concept of loose coupling, whereby institutional subsystems remain formally connected yet retain interpretive and operational independence (Weick, 1976; Orton and Weick, 1990). EMERALD's implementation of SGPD 2019 demonstrates such a response, with governance reforms introduced incrementally while preserving established practices. In this way, the institution sustained Shariah compliance through gradual, evolutionary change rather than abrupt transformation.

Guided by the processual framework of Burns and Scapens (2000), which conceptualises institutional change as a dynamic interaction of rule encoding, enactment, and routinisation, this study explores how EMERALD institutionalised its Shariah governance practices to ensure sustained compliance. Specifically, the study addresses two research questions:

How has EMERALD institutionalised its Shariah governance practices?

What role does loose coupling play in enabling this evolutionary process?

This study contributes to the literature on the institutionalisation of Shariah governance by demonstrating how Islamic banks can balance regulatory, religious, and institutional demands through adaptive and evolutionary change. The findings indicate that the institutionalisation of Shariah governance practices in EMERALD was undertaken to ensure Shariah compliance as a sustained institutional outcome. This evolutionary process involved the encoding of new rules, internal enactment through interpretive mechanisms such as *ijtihad*, negotiated adaptation among institutional members, and gradual routinisation. Loose coupling functioned as a catalyst in this transformation, enabling compliance with regulatory expectations while preserving interpretive discretion and operational flexibility across governance domains. The study underscores the importance of consultative regulatory approaches and internal capacity-building in embedding Shariah-compliant practices. These insights are pertinent for regulators and practitioners seeking to align religious obligations with effective institutional governance.

To facilitate conceptual clarity and aid replication, this study defines its key constructs in operational terms. Institutionalisation refers to the process through which rules and routines become embedded and enacted without continual conscious reflection. In EMERALD's context, this was evident when Shariah-related procedures such as compliance checks and documentation were executed routinely by staff without the need for supervisory intervention. Loose coupling is understood as the formal alignment of institutional subsystems that nonetheless retain operational and interpretive autonomy. At EMERALD, although Shariah control functions were structured to comply with BNM's regulatory requirements, particularly SGPD 2019, they retained considerable discretion, especially in applying *ijtihad* at the operational level. Meanwhile, symbolic compliance (or ceremonial compliance) denotes the adoption of formal structures or policies primarily to project legitimacy rather than to drive immediate behavioural change. This was observed in EMERALD's approach to implementing governance reforms, where SGPD 2019 aligned charters and policies were established early, but substantive changes in practice were introduced gradually reflecting a strategic and adaptive response to external mandates.

Shariah Governance Framework

The regulatory foundation for Shariah governance in Malaysia is anchored in Bank Negara Malaysia's (BNM) Shariah Governance Framework (SGF), introduced in 2010 and subsequently revised under the Shariah Governance Policy Document (SGPD) in 2019. These frameworks provide structured and enforceable guidance concerning the composition, authority, accountability, and independence of Shariah governance mechanisms within Islamic financial institutions (IFIs) (Bank Negara Malaysia, 2019; Yusof and Ali, 2021).

The SGF was designed to harmonise religious oversight with contemporary governance principles by embedding Shariah compliance within the broader risk and internal control infrastructure. It reflects a regulatory ambition to integrate Islamic ethical imperatives with international best practices in governance, transparency, and institutional accountability (Ahmad and Ishak, 2021; Kamaruddin et al., 2020).

The SGPD 2019 marked a significant regulatory evolution, moving beyond compliance checklists to institutional capacity-building. It introduced enhanced requirements for Shariah Committee independence, tenure limits, and functional clarity, while mandating tighter integration of Shariah functions within the risk governance and board oversight systems (Hanefah et al., 2020). These provisions sought to professionalise Shariah governance, positioning Shariah compliance not merely as a religious obligation but as a core institutional value.

At EMERALD, these regulatory developments necessitated structural realignments. The responsibility for Shariah research was redistributed, and the internal reporting lines for Shariah officers were restructured to reflect the functional independence required by the SGPD. The Chief Shariah Division was tasked with new oversight functions, acting as both Secretariat to the Shariah Committee and liaison with executive management. Importantly, these changes were phased in over time, as evidenced by BNM's acceptance of implementation delays upon justification. Such flexibility illustrates EMERALD's use of adaptive mechanisms to align with regulatory expectations without undermining its established internal governance culture.

This evolution demonstrates how formal regulatory instruments such as the SGF 2010 and SGPD 2019 have been gradually institutionalised through negotiation, restructuring, and iterative routinisation. EMERALD's case reveals a transition from compliance as formality to compliance as embedded practice marking a shift towards enduring Shariah governance practice institutionalisation.

Institutional Theory

This study is grounded in institutional theory, which offers a structured lens for understanding how institutions respond to complex and often competing pressures across regulatory, religious, and commercial domains. Core concepts within this framework namely institutionalisation, legitimacy, decoupling, and adaptation explain how institutions may conform to external expectations while preserving internal flexibility (Scott, 2014; Meyer and Rowan, 1977).

Institutionalisation refers to the process by which rules, norms, and practices become embedded within an institution's structure and daily operations. In the Islamic banking context, this process entails the formal integration of Shariah governance into institutional routines and control mechanisms to ensure sustained Shariah compliance (Hasan and Asutay, 2011). This embeddedness not only signals religious adherence but also contributes to the internal coherence and operational credibility of the institution. Achieving legitimacy in such an environment requires navigating and reconciling expectations from regulatory authorities, Shariah scholars, and market stakeholders (DiMaggio and Powell, 1983). To manage these often-conflicting institutional demands, some institutions adopt decoupling the strategic separation of formal structures from actual practices. While earlier perspectives viewed decoupling as purely symbolic or ceremonial (Meyer and Rowan, 1977), more recent literature interprets it as a functional and adaptive strategy. It enables institutions to outwardly comply with formal expectations while internally adjusting practices at a manageable pace (Guerreiro, Rodrigues and Craig, 2021). Symbolic compliance, in this regard, serves as a transitional mechanism rather than a deceptive manoeuvre.

In the Malaysian Islamic banking sector, institutional pressures stem not only from financial regulators such as BNM but also from Shariah advisory bodies and public expectations regarding ethical conduct on Shariah compliance. These overlapping demands create what is known as a complex institutional environment, where multiple forces, regulatory, religious, and market-oriented interact and occasionally conflict. Navigating this terrain often requires IFIs to adopt loose coupling and other adaptive governance mechanisms (Scott, 2014; DiMaggio and Powell, 1983). Loose coupling allows Shariah control functions to maintain alignment at a formal level while preserving interpretive discretion and operational autonomy (Weick, 1976; Orton and Weick, 1990).

This theoretical framing is particularly relevant to the case of EMERALD, which experienced gradual and negotiated transformation in its Shariah governance practices. The institution's phased implementation of SGF 2010 and SGPD 2019 illustrates how loose coupling, and strategic adaptation can be mobilised to balance BNM regulatory compliance with institutional Shariah governance practices continuity. For example, EMERALD was permitted to delay implementation of certain SGPD 2019 requirements upon submission of justifications to BNM, thereby demonstrating how flexibility was embedded within formal compliance pathways. Such adaptations are emblematic of the Old Institutional Economics (OIE) perspective, which views institutional change as evolving through historically shaped routines, norms, and members-based negotiations. Burns and Scapens (2000) advance a processual model of change in which new rules are encoded into institutional practices, enacted through interpretive engagement, reproduced through practice, and eventually routinised into accepted norms.

The institutionalisation of Shariah governance practices in EMERALD especially through internal role realignments, the reinforcement of Shariah Committee authority, and Shariah officers' compliance training reflects this gradual transformation. These processes collectively enabled EMERALD to internalise Shariah compliance not just as a regulatory requirement, but as an operational and cultural norm. By applying institutional theory, this study elucidates how EMERALD's Shariah governance practices institutionalised not through abrupt shifts, but via adaptive, loosely coupled mechanisms that allowed for internal discretion while progressively embedding Shariah compliance into institutional routines.

Institutional Pressures

The institutionalisation of Shariah governance practices at EMERALD has been shaped by a constellation of interrelated pressures regulatory, legitimacy and religious that exert isomorphic influence on institutional behaviour. Drawing on DiMaggio and Powell's (1983) framework, these forces manifest through coercive, mimetic, and normative pressures, shaping how IFIs adapt and embed Shariah governance internally.

Coercive pressure primarily arises from the regulatory mandates of BNM, particularly through the SGF 2010 and its successor, SGPD 2019, issued under the Islamic Financial Services Act 2013 (IFSA 2013). These instruments compel IFIs to adopt structured governance mechanisms with formalised Shariah functions and defined lines of accountability (BNM, 2019; Hasan, 2020). At EMERALD, these mandates triggered institutional restructuring, including the separation of Shariah control functions, reallocation of Shariah research responsibilities, and appointment of function-specific officers. Importantly, EMERALD negotiated delayed implementation of SGPD 2019 regulations, reflecting a responsive and flexible approach that ensured compliance without undermining internal institutional norms.

Mimetic pressure arises from the competitive landscape of Islamic finance, where institutions emulate industry leaders to retain legitimacy and market trust. IFIs increasingly respond to stakeholder expectations for transparent and credible Shariah governance by enhancing disclosure and aligning with international standards such as those issued by the IFSB and AAOIFI (Chapra and Ahmed, 2002; Archer et al., 2007). At EMERALD, efforts to improve Shariah audit visibility, policy documentation, and governance disclosures reflect a conscious strategy to align with sectoral best practices and reinforce public confidence.

Normative pressure originates from professional norms within the Islamic finance field, particularly those upheld by Shariah scholars, fatwa committees, and international standard-setters. These actors influence interpretive expectations through jurisprudential reasoning and consensus (ijma'), often guided by ijihad in the absence of clear textual authority. At EMERALD, the presence of diverse juristic backgrounds within the Shariah

Committee necessitated dialogical reasoning and structured deliberation to maintain both doctrinal cohesion and operational consistency (Dusuki, 2011; Zaher and Hassan, 2001). The integration of *ijtihad* into institutional decision-making also ensured that regulatory demands were contextually interpreted within the framework of Islamic principles.

Despite the SGPD's 2019 aim to standardise Shariah governance across the sector, tensions persist between the formalism of regulatory mandates and the interpretive flexibility of Islamic jurisprudence. At EMERALD, this became evident during attempts to enforce term limits for long-serving Shariah Committee members, many of whom were embedded in longstanding institutional routines. Abrupt enforcement was deemed potentially disruptive; thus, phased succession planning and internal consultation were employed to manage the transition without compromising Shariah oversight. EMERALD's adaptive response is consistent with the concept of loose coupling, in which formal structures align with external expectations while Shariah control functions retain operational discretion. This dynamic is central to Meyer and Rowan's (1977) theory of decoupling and has been further elaborated in more recent studies as a constructive strategy for managing competing institutional logics (Guerreiro et al., 2021). Within EMERALD, the Shariah Committee, Shariah Division, Shariah Audit, Shariah Compliance and Shariah Risk Management functions operated semi-autonomously while collectively contributing to the institutional objective of Shariah compliance.

Inclusively, EMERALD demonstrates how Islamic financial institutions can achieve institutionalisation of Shariah governance practices through adaptive structuring, negotiated compliance, and interpretive engagement. Rather than enforcing rigid alignment, EMERALD internalised Shariah governance regulations through an incremental and context-sensitive process. This approach ensured that Shariah compliance was not only achieved but embedded as a core institutional norm, reconciling regulatory authority with religious legitimacy and institutional continuity. This context-sensitive process is evident in EMERALD's incremental response to the Shariah Governance Framework (SGF 2010) and its subsequent transition to the Shariah Governance Policy Document (SGPD 2019). Rather than adopting these regulatory reforms wholesale, EMERALD tailored their implementation to fit its internal governance structures, such as existing reporting lines, long-serving Shariah Committee members, and embedded routines. This allowed the bank to preserve institutional continuity while gradually aligning with evolving regulatory expectations.

METHODOLOGY

This study adopts a qualitative, interpretive single-case design to examine the institutionalisation of Shariah governance practices in a Malaysian Islamic bank, EMERALD. This approach enables an in-depth understanding of institutional complexities such as loose coupling, symbolic compliance, and legitimacy within a regulatory and religiously bound context (Yin, 2018; Scapens, 2006). The single-case strategy allows for deep contextual analysis, though generalisability remains limited.

Participant Profiles

A purposive maximum-variation sampling strategy was adopted to secure a breadth of perspectives on Shariah governance practices. Eligible participants had at least three years of direct involvement in Shariah governance or formal oversight responsibilities (e.g., reporting to Bank Negara Malaysia), first-hand knowledge of the 2010–2019 regulatory transition in Malaysian Islamic banking, and consented to audio-recording and anonymous quotation. Nine individuals ultimately met these criteria. Seven one-to-one interviews were conducted online, and one group interview combined two Shariah Audit Officers, giving eight interview sessions in total. The cohort covered EMERALD's Shariah Division, Shariah Audit, Shariah Risk Management, and Shariah Compliance functions. Two senior decision-makers the General Manager (15 years' service) and the Chief of the Shariah Division (10 years) were responsible for strategic direction and Shariah assurance. Three departmental heads (Shariah Audit, Shariah Risk Management, and Shariah Compliance) led the control functions that encode, enact, reproduction and institutionalise Shariah governance practices. The remaining four participants comprised two Shariah Audit Officers and two Shariah Risk Management Officers who execute day-to-day controls. Eight participants had more than three years' tenure and had experienced the successive frameworks from GPS 1/2004 through SGF 2010 to SGPD 2019; the sole exception, Shariah Risk Management Officer 1, had three years' experience but demonstrated an informed grasp of earlier regimes. The sample size

accords with qualitative case-study benchmarks Creswell's (2008) guideline of 5–20 participants, Morse's (1994) minimum of six, and Sim and Lewis's (2003) suggestion of fewer than 50 while Guest, Bunce, and Johnson's (2006) evidence that data saturation often occurs within 12 interviews further supports adequacy. Table 1 details each participant's role, tenure with EMERALD (to 2021), academic or professional qualifications, and interview duration.

Table 1. Participant Profile

No.	Interviewee	Working Experience with EMERALD (up to 2021)	Qualification	Duration of Interview
1	General Manager	15 years	Master in Shariah Law. Other Certified Islamic Finance Professional Qualifications (CIFPs)	57 minutes
2	Chief Shariah Division	10 years	MBA in Islamic Banking & Finance. CIFPs	2 hours 20 minutes
3	Head of Shariah Audit Function	13 years	Degree in Accountancy CIFPs	1 hour 35 minutes
4	Head of Shariah Risk Management Function	10 years	Master in Islamic Economy CIFPs	1 hour 20 minutes
5	Head of Compliance Function	14 years	Degree in Economy & uamalat CIFP	1 hour 25 minutes
6	Shariah Audit Officer 1	17 years	Degree in Accountancy CIFPs	Shariah Audit Officers 1 and 2 attended a group interview for 1 hour 55 minutes
7	Shariah Audit Officer 2	8 years	Degree in Fiqh & Usul Fiqh CIFPs	
8	Shariah Risk Management Officer 1	3 years	Degree in Fiqh & Usul CIFPs	1 hour 16 minutes
9	Shariah Risk Management Officer 2	7 years	Degree in Islamic Banking CIFPs	1 hour 25 minutes

Data Collection

The interviews were conducted interactively and conversationally from March to December 2021. Prior permission was obtained from EMERALD's top management, and each participant received an outline of the research objectives and key interview themes in advance. Sessions, held online due to movement control order (MCO) in response to the COVID 19 pandemic. The interviews lasted between one and two hours, seven were individual interviews and one was a group interview with two Shariah Audit Officers, giving eight sessions in total. All interviews were audio-recorded, transcribed within forty-eight hours, and stored in an encrypted archive. Iterative questioning allowed the researcher to clarify unclear issues and pursue emergent topics.

Transcriptions were completed within two to four weeks of each session and then returned to participants for member-checking.

Data Analysis

NVivo 14 was employed for systematic data management, enabling secure storage, coding, and retrieval of interview and documentary material. The software's 'maps' application allowed cognitive mapping of codes and the visual display of relationships among themes. A combined deductive–inductive coding strategy was used: deductive codes stemmed from the research questions and institutional-theory constructs, whereas inductive codes emerged from the data itself (Saldana, 2016). Following Miles et al., (2014) cycle, the analysis proceeded through data condensation, data display, and conclusion drawing. Thematic matrices highlighted convergences and divergences between senior decision-makers and operational officers, while NVivo queries verified co-occurrence patterns.

Data Saturation, Research Validity and Triangulation

The credibility of a qualitative case study is strengthened when multiple data sources converge on the same finding (Denzin, 1978; Yin, 2018). In this study, interviews were triangulated with extensive document analysis—SGPD 2019, IFSA 2013, SGF 2010, GPS 1/2004, annual reports (2014–2021), the Shariah Committee Charter, Board and Audit Committee charters, Shariah Policy Manual, Audit Planning Memoranda, internal memoranda, minutes, and Shariah Committee resolutions. Convergence across these sources confirmed rule routinisation and highlighted how mandatory reporting requirements and penalties heightened institutional awareness of Shariah non-compliance.

Saturation was monitored continuously. After eight interview sessions, no substantively new codes emerged, indicating thematic sufficiency (Guest et al., 2006; Fusch and Ness, 2015). Bernard's (2012) recommendation to include participants able to address under-explored issues was satisfied by the addition of the Shariah Risk Management Officer with three years' tenure, whose responses enriched contextual depth. Triangulation of interview and document evidence ultimately enhanced construct validity, internal reliability, and analytic generalisability (Miles et al., 2014).

DISCUSSION

Empirical Findings

This study examined how EMERALD institutionalised Shariah governance practices in response to Bank Negara Malaysia's (BNM) regulations, Islamic principles, and legitimacy demands to ensure Shariah compliance. The findings indicate that implementation was not immediate but unfolded through gradual adaptation and negotiation. As stated by the Chief Shariah Division,

"We defer some of the requirements under SGPD 2019 until April 2023,"

This illustrating how BNM permitted delays if explanations were provided. Supporting this, the Head of Shariah Risk Management explained, "...BNM can accept, provided we give justification on why we stick to our current structure".

These responses suggest that EMERALD retained internal discretion by selectively phasing in regulatory changes. This adaptive compliance reflects practices noted in previous studies of Islamic financial institutions (Hanefah et al., 2020; Kamaruddin et al., 2020).

Structural reform was another area of change. Under SGF 2010, EMERALD maintained four Shariah control functions reporting to the Chief Shariah Division. SGPD 2019 required realignment into three functions to ensure clearer delineation, specialisation, and greater independence. EMERALD responded by setting up a distinct Shariah Division under the Chief Shariah Division, who also served as the Secretariat to the Shariah Committee with administrative reporting to the General Manager. This reconfiguration enabled clearer role boundaries while preserving operational routines. As the Chief Shariah Division claimed that, "Shariah officers under each control

function now clearer with their specific tasks and responsibility and clarify on reporting line,” This reflects a structured implementation of governance reforms without disrupting the bank’s internal equilibrium.

Another regulatory reform that proved difficult to implement concerned the Shariah Committee's tenure. SGPD 2019 introduced a nine-year term limit prohibiting reappointment within the same institution. However, EMERALD found this difficult to institutionalise due to the longstanding presence and embeddedness of existing members. The Chief Shariah Division candidly noted, “That's the challenge in this industry or perhaps the way of the industry”.

This challenge highlights the difficulty of enforcing top-down changes when they conflict with deeply rooted institutional norms and relationships (Kamaruddin et al., 2020). Despite such challenges, overall resistance was minimal. EMERALD introduced reforms gradually, clarified staff responsibilities, and preserved internal norms. This was confirmed by the Head of Shariah Compliance, “Some of the requirements under SGF 2010 did trigger our self-regulated framework, but if you don’t want to comply, you have to justify it to Bank Negara Malaysia”.

This quote illustrates how EMERALD balanced internal autonomy with external regulatory conformity. The bank’s efforts show that while regulatory requirements were met, they were adapted incrementally, ensuring continuity of internal culture and control practices (Dusuki, 2011).

Interpretive Bridge

To further clarify how institutionalisation unfolded at EMERALD, the core stages of Burns and Scapens’ (2000) framework encoding, enactment, reproduction, and routinisation can be traced empirically through specific governance practices. The encoding phase was marked by the formal introduction of key regulatory documents, most notably the Shariah Committee Charter approved following SGPD 2019, which formally outlined the roles, authority, and reporting structures of the Shariah governance institution. This laid the groundwork for the enactment phase, as seen in the selective application of new policies, including the introduction of tenure limits for committee members, where one member was rotated out following BNM guidelines. Reproduction was evidenced by the integration of Shariah risk indicators into EMERALD, which ensured periodic monitoring and reporting. Finally, routinisation became visible when branch staff began referring to compliance checklists and governance protocols as part of their routine workflow, without the need for directive reminders. These examples collectively illustrate how institutional change at EMERALD evolved incrementally and contextually, reflecting the layered process of embedding new rules and practices into the institutional fabric.

The concept of loose coupling (Orton and Weick, 1990; Weick, 1976) is especially relevant. While EMERALD adopted BNM’s regulatory structure, it retained discretion through interpretive tools like *ijtihad* and phased implementation. Ceremonial compliance (Meyer and Rowan, 1977; Guerreiro et al., 2021) played a pivotal transitional role where charters and policies were produced to signal formal alignment, while internal behavioural change unfolded incrementally.

Theoretical Implications

These findings mirror earlier Malaysian institutional studies. Nor Aziah and Scapens (2007) showed how the corporatisation of a public utility (PSP) led to the ceremonial adoption of accounting reforms that were loosely coupled with core practices. Similarly, Norhayati and Siti-Nabiha (2009) reported how performance management systems (PMS) were formally implemented in GLCs but weakly integrated into daily operations, driven by legitimacy concerns rather than efficiency motives.

EMERALD’s experience differs in terms of it progressively realigned its governance structure to reflect both internal practice and external mandates. This supports Nawaz Khan et al., (2022) concept of first order change recursive and non-disruptive and aligns with Fatmawati et al., (2022) model of ethical institutional maturity, where compliance becomes an intrinsic cultural norm.

Thus, EMERALD illustrates how Islamic financial institutions (IFIs) can strategically use loose coupling as a dynamic mechanism. Regulatory demands were encoded and signalled through documentation and reporting,

but implementation allowed for local interpretation and staged alignment echoing the findings of Padmasiri and Ajward (2023) on internal transformation in regulatory systems. Ultimately, EMERALD's case highlights that loose coupling is not a weakness but a strategic enabler of legitimacy, internal coherence, and sustainability (Scott, 2014; DiMaggio and Powell, 1983).

CONCLUSION

This study examined the institutionalisation of Shariah governance practices in EMERALD, a Malaysian Islamic bank, within a complex institutional landscape shaped by BNM's regulatory mandates, Islamic principles, and legitimacy expectations. Drawing on institutional theory and the processual framework of Burns and Scapens (2000), the findings demonstrate that institutionalisation in this context is not a linear, top-down imposition but an evolutionary process involving interpretation, negotiated adaptation, and the gradual routinisation of rules.

EMERALD's response to coercive, mimetic, and normative pressures was characterised by adaptive structuring and strategic loose coupling. Regulatory reforms particularly under SGF 2010 and SGPD 2019 were encoded into formal structures, yet their implementation was subject to institutional members' negotiation and phased enactment. Through *ijtihad*, dialogical reasoning, and contextual deliberation, externally mandated rules were reframed to align with the bank's internal values and operational routines. Over time, these practices became embedded and routinised, contributing to what Fatmawati et al. (2022) describe as ethical institutional maturity where Shariah compliance is no longer perceived as a regulatory obligation, but as an institution's cultural norm.

Crucially, loose coupling emerged as a central catalyst of evolutionary change. It allowed EMERALD to symbolically conform to regulatory requirements while preserving core institutional autonomy. The semi-autonomous functioning of institutional members such as the Shariah Committee, Shariah officers from the control functions, and operational divisions enabled the institution to maintain flexibility in practice while demonstrating external legitimacy. This strategy facilitated the coexistence of Islamic principal and regulatory compliance without compromising operational efficiency.

This study contributes to three key domains. Theoretically, it extends institutional perspectives by illustrating how change unfolds incrementally within Islamic bank, particularly in environments characterised by Islamic principal and sometimes conflicting institutional practices. Empirically, it offers an in-depth case study of how Shariah governance practices are institutionalised through symbolic legitimacy, routinisation, and capacity building. Practically, it highlights the value of consultative regulatory approaches and institutional learning mechanisms such as internal training, phased implementation, and interpretive engagement as critical catalysts of sustainable governance transformation.

Nonetheless, the study's insights are subject to certain limitations. Its single-case design, while offering rich contextual understanding, may limit generalisability beyond Malaysia's regulatory framework, which is centrally coordinated by Bank Negara Malaysia. Jurisdictions with less centralised or fragmented Shariah oversight may encounter different dynamics. Future research could adopt comparative case studies, longitudinal analyses, or focus more closely on jurisprudential deliberations within Shariah Committees to further unpack the interpretive dimensions of institutional change.

In conclusion, EMERALD's experience affirms that sustainable Shariah governance practices are best achieved not through rigid regulatory enforcement, but through adaptive, participatory, and interpretive processes that reconcile institutional structure with religious substance. Loose coupling, when strategically managed, enables evolutionary changes through institutionalisation of Shariah governance practices to preserve legitimacy, operational coherence, and the integrity of Shariah compliance.

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