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RESEARCH ARTICLE

Bridging Governance Gaps in Islamic Banking: Palestine and Malaysia Compared

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ABSTRACT

This study focuses on the most important governance issues that Islamic banking institutions in Palestine are experiencing and discusses what can be learnt from the Malaysian experience in helping to better govern Islamic banking institutions to improve governance efficiency, adherence to Sharīᶜah and regulatory oversight. Using a qualitative approach, research is based on the data collected from interviews with experts, document analysis and comparative case studies of both jurisdictions. The results indicate that lack of a centralised authority to monitor them, lack of professional expertise and the inadequate specified internal frameworks greatly constrain the effectiveness of governance in Palestinian Islamic banks. Slowness in digital transformation, lack of cybersecurity policies are also contributing to these deficiencies. Conversely Malaysia has a comprehensive governance system that is based on centralized oversight and institutionalized development that can provide a realistic point of reference in regard to reform. The study makes recommendations to create a single unified national governance authority, improve professional training in Islamic financial regulation and to promote more independence of supervisory boards. It further stresses the importance of intensive digital governance and cybersecurity systems that will enable FinTech integration and institutional resilience.

Keywords: Islamic banking governance, regulatory oversight, Sharīᶜah adherence, Palestine, Malaysia
JEL Classification: G21, G28, P43, Z12, O16
KAUJIE Classification: G1, G12, G15, G13, E2

1. Introduction

The first principle of Islamic banking is the governance of the institution which is important for the stability of the financial system, Sharīᶜah compliance and the transparency of the institution (Mamatzakis et al., 2023). In Palestine, Islamic banks have become an integral part of the national financial system through interest-free products that satisfy the ethical principles of Islam. However, various governance deficiencies, scattered regulations, insufficient professional expertise and lack of cohesive supervisory body, have hampered the sector's effort in keeping its operations in constant compliance with Sharīᶜah Law and efficient in its operation. Addressing such challenges through comparative learning from Malaysia's solidified governance model can offer viable solutions to improve the effectiveness of the regulatory and institutional aspects.

Islamic banking governance is based on principles of integrity, accountability and equity which are implemented through standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Nevertheless, it has been demonstrated that empirically, nations with emerging practices of Islamic finance still face issues in compliance and capacity of the institution (Alghadi

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et al., 2024). The Palestinian experience is illustrative of such struggles: although there are major Islamic Banks such as the Arab Islamic Bank and Palestine Islamic Bank, their sector is regulated by scattered Sharīʿah boards that lack a central authority. This gap in regulation results in low consistency in governance practices, as well as a lack of enforcement by regulatory bodies (Billah & Fianto, 2021).

According to recent reports of AAOIFI (2024), the poor governance structure is complemented by technological backwardness and poor cybersecurity needs of the sector. In addition, slow growth of digital governance frameworks and the low capacity to integrate financial technology (FinTech) makes the modernization process of the sector challenging and riskier (Alghadi et al., 2024). In comparison, the policy document on Sharīʿah Governance Policy Document (2019) released by Bank Negara Malaysia (BNM) in Malaysia takes a centralised approach which integrates Sharīʿah supervision, risk management and digital compliance under a single centralised framework which provides a useful parameter for reform.

From a theoretical perspective, good corporate governance has been shown to enhance the performance and confidence of stakeholders of Islamic financial institutions (Aslam et al., 2024). However, in Palestine, poor governance structures, risk management practices and the irregular disclosure patterns continue to erode trust. Despite the fact that some banks have implemented their own Sharīʿah audits, there is no comprehensive legislation that would regulate the Sharīʿah audit in a broader sense and make it more effective (Mollah et al., 2017).

These deficiencies raise a central research question:

- How can insights from Malaysia's Islamic banking governance framework be utilized to develop a more coherent, effective, and Sharīʿah-compliant governance model for Islamic banks in Palestine?

To address this overarching question, the study pursues the following sub-questions:

1) What are the principal governance gaps affecting Islamic banks in Palestine?
2) Which elements of Malaysia's governance framework could be adapted to the Palestinian context?
3) How can these adaptations strengthen regulatory oversight, Sharīʿah compliance, and digital governance in Palestinian Islamic banks?

The potentiality behind this study is that there is an imminent need to increase effectiveness of governance in a fast-changing financial landscape. Enhancing Sharīʿah oversight and institutional capacity will not only enhance compliance but also foster the financial inclusion and vulnerability to the Islamic finance sector in Palestine (Fatmawati et al., 2022; Uddin et al., 2024).

1.1. Background of Islamic banking in palestine

Islamic banking in Palestine began in the mid-1990s and Islamic banks such as the Palestine Islamic Bank and Arab Islamic Bank pioneered Sharīʿah compliant banking products. Today, the sector consists of three licensed Islamic banks that combined have almost 16 percent of total banking assets (Association of Banks in Palestine, 2024). Despite such growth, governance practices remain fragmented, mostly because of the lack of a centralized Sharīʿah advisory council and lack of regulatory alignment between banks.

1.2. Structure of the paper

The remainder of this paper is structured as follows: Section 2 reviews the relevant literature and identifies key gaps in the Palestinian and Malaysian contexts. Section 3 outlines the theoretical framework underpinning the study. Section 4 explains the qualitative methodology adopted. Section 5 presents and compares the main findings, while Section 6 discusses their theoretical and practical implications. Finally, Section 7 concludes with key insights, policy recommendations, and directions for future research.

2. Literature review

2.1. The concept of Islamic banking governance

Islamic banking governance (IBG) is based on Sharīʿah values that stress the importance of transparency, equity, and accountability in financial activities (Alam & Miah, 2024). Unlike conventional banks, Islamic financial institutions are based on profit and loss sharing (PLS) such as Muḍārabah and Mushārakah that link economic performance to ethical investment. These institutions incorporate structures of governance with Sharīʿah Supervisory Boards (SSBs), corporate boards and regulatory authorities, together with the enforcement of Islamic law and financial discipline (Franzoni & Ait Allali, 2024).

Recent studies employ institutional theory to explain how Islamic banks react to regulatory and normative pressures for practice in governance. Alam & Miah (2024) have claimed that the compliance behavior in Islamic banks is developed as rational responses to coercive and mimetic institutional pressures. Such governance systems, however, can only be efficient if the national regulatory environments are strong and Sharīʿah supervisors are competent.

2.2. Sharīʿah governance frameworks in islamic banks

The Sharīʿah governance (SG) framework is the backbone of the Islamic banking regulation establishing principles in terms of supervision, transparency, and ethics (AAOIFI, 2024). AAOIFI and Islamic Financial Services Board have published detailed standards to guide Islamic financial institutions worldwide, however, they are adopted differently by jurisdictions.

Malaysia has been widely known as a pathfinder country in institutionalizing Sharīʿah governance. Bank Negara Malaysia's (BNM) Sharīʿah Governance Policy Document (SGPD, BNM, 2019) institutionalizes the supervisory mechanism through the Sharīʿah Advisory Council (SAC), ensuring that Sharīʿah interpretation is uniform across the industry (Chourana et al., 2021). Practical experience proves that this centralized model will increase the consistency of compliance, reduce overlapping regulations, and improve the confidence of the population (Franzoni & Ait Allali, 2024).

In contrast, there has been no single authority of Sharīʿah governance in Palestine. Each Islamic bank has an SSB of its own, which leads to differences in terms of the Fatāwā and governance interpretations (Billah & Fianto, 2021). Such fragmentation lacks transparency, is difficult to supervise through regulations, and leads to inefficiency in the sector (Al-Salahin, 2021).

2.3. Corporate governance and islamic banking performance

The Islamic banks play a significant role in the financial sector, and the proper management of a bank has a direct impact on its performance and stability as a result of good corporate governance practices. Aslam et al. (2024) reported that the transparent reporting, effective risk management, and accountability of board members are positively related to institutional efficiency. Moreover, there is comparative evidence in Europe and Southeast Asia that Islamic banks that are well structured in terms of governance hierarchy and Sharīʿah monitoring mechanisms are more resilient to operational risks.

However, there may also be coordination problems with the various levels of governance, the corporate and the Sharīʿah. Mollah et al. (2017) say that there are no good synergies among the two structures, leading to inconsistent compliance and potential malpractice. Similarly, Ngumar et al. (2019) warn that poor board independence and non-enforcement of the ethical considerations will expose Islamic banks to the danger of governance failure with accompanying reputational risks. In view of the results of this study, it is advocated that more complete frameworks should be developed that would balance the fiduciary and Sharīʿah requirements.

2.4. Regulatory challenges in islamic banking governance

Regulatory fragmentation remains the greatest hurdle to good governance in emerging Islamic finance markets. Alam & Miah (2024), Ltd suggest that the uniformity and lack of uniformity in legal systems poses a challenge to the harmonization of Sharīʿah and corporate governance. In the case of Palestine, this is defined into a series of subsuming frameworks that do not give a clear picture of the division of supervisory power, leading to regulatory uncertainty and ineffectiveness in operations (Al-Salahin, 2021).

Malaysia, on the other hand, is regulated under Islamic Financial Services Act, whereby Sharīʿah compliance, consumer protection and prudential regulation are combined in a single framework (Billah & Fianto, 2021). The conformity of the IFSA with the international standards of governance promotes uniformity of control and legal enforceability. Addressing the challenges in Palestine therefore involves the need for the development of harmonized codes of governance that would standardize the operation of Islamic banking and ensure its compliance with AAOIFI and IFSB standards.

2.5. Digital transformation and governance in islamic banks

The digitalization of financial services has created new aspects of financial governance in Islamic banking. Blockchain-based contracts, artificial intelligence, etc. FinTech can help companies through the promotion of transparency, traceability and efficiency in compliance. Nevertheless, all these innovations also have complex cyber and ethical risks that must be addressed under a Sharīʿah-compliant regulatory environment (Alghadi et al., 2024).

In Malaysia, digital governance has been established in the Islamic finance ecosystem with aspects of cybersecurity, digital ethics and data protection, under the supervision of BNM (Fatmawati et al., 2022). On the other hand, Palestinian Islamic banks are technology limited and they have no legislative frameworks for digitalization. The need of the hour is for policy makers to include Sharīʿah built digital system of governance to propel innovation and provide ethical integrity and consumer confidence.

2.6. Comparative analysis: Malaysia and Palestine:

Malaysia has an extensive and centralized model of governance which is referenced repeatedly as a model of excellence for Islamic banking (Chourana et al., 2021; Franzoni & Ait Allali, 2024). Its central Sharīʿah authority, its mandatory disclosure policies, and layered regulatory architecture make the institutions consistent with each other. On the contrary, a decentralized system in Palestine results in weak compliance, weak enforcement and low institutional capacity (Billah & Fianto, 2021).

In addition, Malaysia's investment in human capital through organized Sharīʿah training programs and postgraduate programs has also enhanced professional competence (Fatmawati et al., 2022). Meanwhile, Palestine experiences severe difficulties in having qualified scholars and governance professionals to address strategic decision-making and prevention of risks. In order to bridge this gap, policy transfer mechanisms that support capacity building, knowledge transfer and regulatory cooperation between the two jurisdictions are needed.

2.7. Bridging the research gap and conceptual framework

Although Islamic banking governance literature is voluminous, most research is done on maturity systems like Malaysia, Indonesia, and Gulf states. Empirical studies focused on Palestine are scarce, especially in terms of the Sharīʿah supervision, regulatory consistency, and digitalization (AAOIFI, 2024; Aslam et al., 2024). Existing empirical comparisons of their experiences have been limited in the sense that the lessons from Malaysia for policy reforms in transitional economies with relatively underdeveloped regulatory environments are infrequently discussed.

In order to fill this gap, the current study integrates the governance dimensions, board structure, Sharīʿah supervision, regulatory enforcement, and technological readiness into a conceptual framework which links these constructs to governance effectiveness and institutional performance. This model informs the empirical and comparative analysis which follows.

The conceptual framework describes the interrelation between governance mechanisms namely board oversight, Sharīʿah supervision, regulatory enforcement, and technological adaptation as the independent dimensions that affect governance effectiveness and institutional performance in Islamic bank. The model assumes that centralized governance structures and better coordination of Sharīʿah have a positive impact on compliance integrity, operational efficiency and confidence in stakeholders as this is the theoretical base for the comparative analysis of Palestine and Malaysia in this study.

3. Theoretical framework

Islamic banking governance could be theoretically based on three different perspectives that are

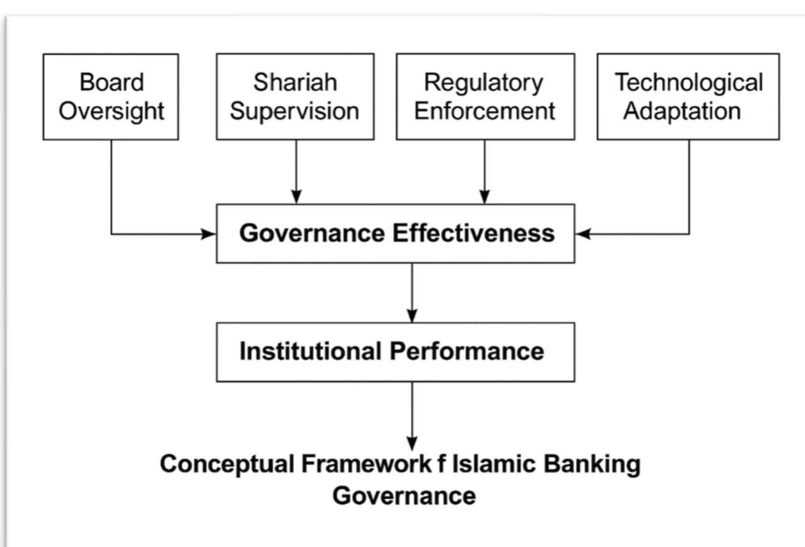

Fig. 1. *Conceptual Framework of Islamic Banking Governance.*
Source: Author's conceptualization derived from qualitative data (Feb. 2025)

complementary, namely: Agency Theory, Stakeholder Theory and Sharīᶜah Governance Theory. Each of them presents a special lens to discuss the role of governance mechanisms in affecting compliance, accountability and institutional performance under Islamic financial systems.

3.1. Agency theory

Agency Theory assumes that due to information asymmetry and conflicting objectives, conflicts of interest can arise between the principals (shareholders) and the agents (managers). In Islamic banking this relationship becomes even more complicated by the participation of depositors as investment account holders by taking funds on a trust basis. The theory therefore emphasizes the importance of monitoring mechanisms, Sharīᶜah supervisory oversight and transparency disclosure to mitigate the problem of agency.

Within the context of Palestine, poor enforcement and lack of coordination in supervision result in increased conflicts of agency between management and Sharīᶜah boards. By contrast, Malaysia's centralized Sharīᶜah Advisory Council provides a control mechanism that is external to the organization, where the managerial actions are coordinated with the shareholder and stakeholder interests. Hence, Agency Theory offers a useful framework for the analysis of how the integration of regulation and Sharīᶜah oversight can be used to reduce opportunistic behavior and improve governance accountability.

3.2. Stakeholder theory

Stakeholder Theory expands the governance discourse from shareholders to include employees, customers, regulators and society in general (Freeman, 1984). In the Islamic framework of finance, this perspective is of particular significance since Social Responsibility, Responsible Conduct and Fair Distribution of Wealth are an integral part of maqaseed al-sharri'ah (objectives of the Islamic law).

Application of this theory to the Palestinian banking context identifies the need for an inclusive governance structure that caters for the expectations of multiple stakeholders including depositors and religious authorities who are keen on visibility and Sharīᶜah compliance. Malaysia's model of stakeholder-based governance that ensures the public interest is taken into consideration when designing regulations provides a useful model for balancing such interests. This comparative view stresses the fact that good governance of sustainable Islamic banking cannot be solely determined by the performances of fiduciaries, but also, taking into consideration the ethical responsibility and social welfare of the society.

3.3. Sharīᶜah governance theory

Sharīᶜah Governance Theory is in particular associated with the institutional arrangements that ensure the compliance to the norms of Islamic legal and ethical provisions. It argues that Sharīᶜah supervisory structures, legal requirements and independence of institutions are jointly responsible for the credibility of Islamic financial operations.

Under this framework the Sharīᶜah Supervisory Board (SSB) is seen as the guardian of compliance integrity whose responsibility is to validate all financial activities against the principles of Sharīᶜah. In Malaysia, the BMO's BNM (2019) provides institutional mechanisms for governance, accountability, and disclosure of Sharīᶜah. In Palestine, however, there is no centralized body, resulting in inconsistency of interpretations and haphazard compliance practices. Hence, Sharīᶜah Governance Theory explains how structural reforms, for example, the creation of a national Sharīᶜah council, can unite decision-making and strengthen trust in the Islamic banking sector.

3.4. Relevance of theoretical integration

Combining these three theoretical perspectives makes it possible to develop a holistic understanding of Palestinian and Malaysian Islamic banking governance. The Agency Theory describes the internal control and managerial responsibility, the Stakeholder Theory highlights the ethical and social responsibility, and the Sharīᶜah Governance Theory explains the religious and institutional underpinnings of compliance. Collectively, they are multidimensional in analyzing the effectiveness of governance in Islamic financial institutions and become the conceptual backbone in this study for comparative and analytical.

Fig. 2 provides a conceptual framework for the study combining Agency Theory, Stakeholder Theory and Sharīᶜah Governance Theory as the theoretical underpinnings as the constructs of good Islamic banking governance. The framework suggests that agency structures (e.g., monitoring, accountability, and disclosure) interact with principles oriented towards stakeholders (e.g., ethics, transparency, and social responsibility) within a framework of Sharīᶜah governance structures (e.g., Sharīᶜah boards, regulatory oversight, and fatwa standardization).

Together, these dimensions of theoretical analysis resonate in governance effectiveness which in turn determines institutional performance, Sharīᶜah

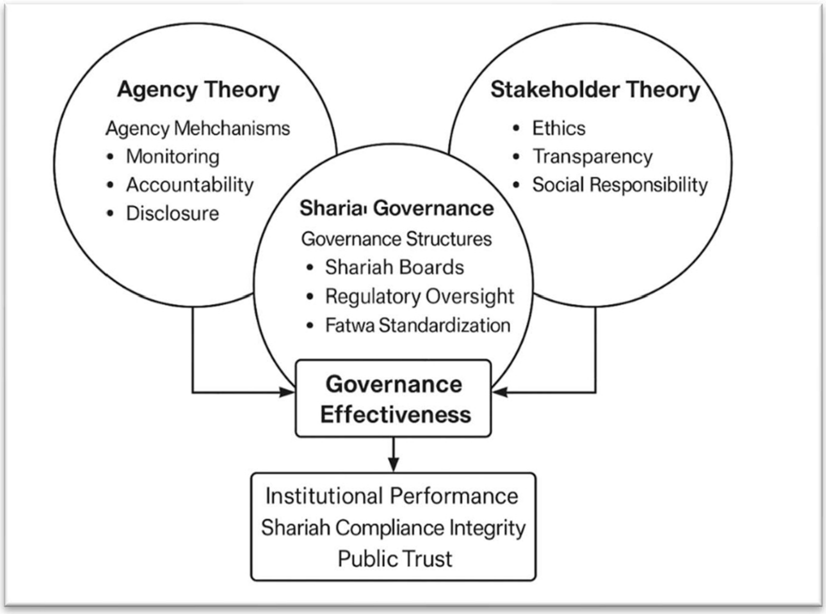

Fig. 2. *Theoretical Framework of the Study.*
Source: Author's conceptualization derived from qualitative data (Feb. 2025)

compliance integrity and public trust. Such a theoretical conceptual lens provides the intellectual framework to examine governance practice in various regulatory contexts like Palestine and Malaysia.

4. Methodology

4.1. Research design and rationale

This paper uses a qualitative research approach to investigate the complex governance relations of Islamic banking systems in Palestine and Malaysia. The qualitative approach is most suitable since the research is explanatory in nature, the issues relating to Sharīᶜah is sensitive and expert opinion and contextual nuances are required to describe.

The basis of the design is largely semi-structured interviews with experts and document analysis. The multi-source approach affords the methodology of triangulation, which ensures validity and depth of interpretation. Firsthand expert testimony is supplemented by documentary evidence, and this makes the findings even more reliable, while allowing the comparison between two ecosystems of governance with different maturity of the regulatory frameworks.

Although at first mixed methods were thought to be used, the study has more of a qualitative emphasis rather than statistical generalization. The combination of several types of data (interviews + documents) however allows data triangulation which increases the credibility and transferability of results.

4.2. Data collection procedures

4.2.1. Expert Interviews

Primary data were gathered from semi-structured interviews with governance practitioners and regulators working in Islamic banking in Palestine and Malaysia. Subjects were chosen through purposive sampling so as to ensure that respondents had relevant expertise in Sharīᶜah governance, company compliance, and Islamic financial regulation.

The sample size was twelve respondents from the following groups:

- 4 members of Sharīᶜah Supervisory Boards (SSBs).
- 3 regulatory officers from central or supervisory authorities.
- 3 Islamic bank executives and compliance managers.
- 2 academic experts specializing in Islamic finance and governance.

Each interview was conducted for 45-60 minutes and was conducted in English or Arabic as the respondent preferred. The interviews were recorded and transcribed verbatim with consent. The open-ended format provided participants an opportunity to explain issues of governance, gaps in regulation and learnings from Malaysia's experience.

4.2.2. Document Analysis

To verify and contextualize findings from interviews, this study analyzed a number of documents:

- Regulatory policies issued by AAOIFI (2024), IFSB (2020), and Bank Negara Malaysia (BNM, 2019).
- Governance frameworks and internal policies from major Palestinian Islamic banks.
- Scholarly articles, case studies, and legal reports addressing Sharīʿah governance reforms.

The document analysis was aimed at identifying patterns of the governance structure, gaps in the Sharīʿah compliance mechanisms, and the institutional roles of the regulatory authorities. This triangulation of text information improved on construct validity and contextual interpretation.

4.3. Data analysis techniques

The qualitative data were coded and analysed using a thematic analysis approach and NVivo 14. The process consisted of the following stages:

1. Data Familiarization: Reading and re-reading transcripts to identify preliminary meanings.
2. Initial Coding: Creating open codes that reflect emerging concepts (e.g., "regulatory fragmentation," "Sharīʿah authority gap," "cyber governance").
3. Theme Development: Grouping related codes into higher-order themes aligned with the research objectives.
4. Comparative Analysis: Contrasting patterns between Palestinian and Malaysian governance systems to derive actionable insights.

Descriptive statistics (using SPSS 28) were applied solely to summarize respondent demographics, ensuring clarity in sample representation but without quantitative inference.

4.4. Validity and reliability

The study employed multiple procedures to ensure methodological rigor:

- Pilot Testing: The interview guide was pre-tested with two Islamic finance academics to assess clarity, sequence, and relevance of questions.
- Reliability: Internal consistency of conceptual indicators was examined via Cronbach's $\alpha = 0.86$, confirming satisfactory reliability for supplementary quantitative measures.
- Triangulation: Combining interview and document data enhanced credibility and reduced bias.
- Expert Validation: The thematic framework and emerging interpretations were reviewed by two governance specialists to confirm interpretive accuracy and theoretical alignment.

These processes together increase the credibility and trustworthiness of results, as is appropriate in qualitative research.

4.5. Ethical considerations

Ethical integrity was maintained throughout all stages of the research:

- Ethical Approval: This study did not require formal ethical approval according to the regulations of International Islamic University Malaysia. However, all research procedures adhered to standard ethical principles.
- Informed Consent: Participants were briefed about the study's objectives, assured of anonymity, and provided written consent before participation.
- Confidentiality: All identifiers were removed from transcripts, and digital files were securely encrypted.
- Voluntary Participation: Respondents were informed of their right to withdraw at any point without penalty.

These ethical safeguards ensured that the research was conducted in a manner that was consistent with the professional standards of integrity, transparency and respect for autonomy.

4.6. Demographic profile of respondents

The respondents represent a diverse range of institutions, ensuring comprehensive coverage of governance perspectives from regulatory, operational, and academic dimensions.

4.7. Methodological limitations

While this qualitative design provides in-depth understanding, it is bounded by several constraints:

- Findings are context-specific to Palestine and Malaysia and may not be generalizable to other jurisdictions.
- Interview-based data may contain subjective biases despite triangulation controls.
- Ongoing regulatory reforms and technological shifts may influence governance dynamics beyond the study's timeframe.

Despite these limitations, the methodological rigor and multi-source validation provide a robust foundation for credible insights into Islamic banking governance.

5. Findings

5.1. Overview of data and analytical approach

The empirical data were obtained from twelve interviews with field experts, including members of the Sharīᶜah Supervisory Board (SSB), executives of the Islamic banks, and the regulatory officers as well as the academic experts from Palestine and Malaysia. Using NVivo-assisted thematic analysis of the data, 5 dominant themes were identified:

1. Fragmented Regulatory and Sharīᶜah Governance Structure.
2. Shortage of qualified Sharīᶜah and Governance Experts.
3. Poor Corporate Governance & Independence of Board.
4. Deficiencies in Digital Governance and Cybersecurity.
5. Lessons from Malaysia's Centralized Model.

Generally, these themes combine to indicate the systemic issues that constrain Islamic banking governance in Palestine and illustrate comparative strengths of the Malaysian model. Each theme is discussed below with empirical information, theoretical interpretation, and critical comment.

5.2. Fragmented regulatory framework

The first major finding shows large degree of regulatory fragmentation in the Islamic banking system in Palestine. Respondents always underlined the lack of a central authority of Sharīᶜah governance and therefore inconsistent rulings and non-standardized compliance practices among banks.

> "Every Islamic bank in Palestine sets its own Sharīᶜah guidelines without coordination. This causes confusion and inconsistency in implementation." (R3, Sharīᶜah Board Member)

> "We need a supreme Sharīᶜah council that monitors all institutions, like in Malaysia, otherwise governance will always remain weak." (R8, Regulator)

This fragmentation is directly related to Agency Theory, where the lack of a central principal (regulator) results in a weakened form of oversight where agents (banks) act independently of each other and sometimes act against collective Sharīᶜah goals. It also goes against Sharīᶜah Governance Theory that requires that there be a hierarchical supervision for accountability and integrity. Comparatively, the centralized oversight in Malaysia via Bank Negara Malaysia's Sharīᶜah Advisory Council (BNM-SAC) helps in achieving a unified ruling and curbing the conflict of agencies. Consequently, institutional decentralization contributes to regulatory opacity and institutional divergence in Palestine.

5.3. Shortage of qualified Sharīᶜah and governance experts

A recurring theme throughout all of the interviews is the lack of human capital in the areas of Sharīᶜah and governance. Most Palestinian Islamic banks are based on a handful of scholars - many of whom lack real training in financial governance.

> "We have Sharīᶜah scholars, but very few understand modern banking regulations." (R6, Bank Executive) "Malaysia invests in human development for Sharīᶜah governance. We have not done the same in Palestine." (R2, Academic Expert)

This difference and deficiency is explained under Stakeholder Theory which emphasizes on the role of all the stakeholders including the customers, the regulators and the scholars in the governance ecosystem. In Palestine, lack of competence in training is to be considered a weak point when it comes to holding stakeholders responsible for their expectations in terms of transparency and ethical behavior. The deficiency also affects the institutional credibility as the delay and inconsistency in decision making ensues.

Critical Reflection: In the absence of capacity-building schemes and certification schemes such as in Malaysia, Palestinian Islamic banks may continue to underperform in terms of governance quality and assurance of Sharīᶜah. Setting up national training partnerships with organizations such as INCEIF or ISRA Malaysia will go a long way to enhance professional competency.

5.4. Weak corporate governance and board independence

The third theme relates to the inefficiencies of corporate governance, specifically poor independence of boards and lack of transparency. Respondents said the decision-making tends to be dominated by a small group of executives with little accountability to Sharīᶜah boards or external auditors.

> "Our boards are not truly independent. Most members are appointed by management, not by the regulator." (R9, Compliance Officer) "Without independent oversight, governance becomes symbolic rather than functional." (R4, Regulator)

Under Agency Theory weak board independence aggravates conflicts of interest between management and shareholders and the Sharīʿah Governance Theory implies the existence of overlapping functions of executives and supervisors as compromising Sharīʿah integrity. The lack of independent Sharīʿah audits only adds to this tension.

Critical Evaluation: Although Malaysia's corporate governance code is a good example of separation of power between Sharīʿah boards and executive management, Palestinian banks have blurring lines of accountability. This undermines the performance of fiduciaries as well as the compliance of Sharīʿah which creates a lack of confidence among stakeholders.

5.5. Digital governance and cybersecurity deficit

Another important finding is that of the absence of digital governance infrastructure. Respondents recognized technological innovation is still marginal to governance policies in Palestine, which is becoming increasingly important across the world.

> "We have no dedicated unit for cybersecurity governance. The system is reactive, not preventive." (R10, IT Officer) "Malaysia has integrated FinTech into its governance. We still struggle with basic automation." (R5, Sharīʿah Scholar)

From a Stakeholder Theory perspective, this lack of is a lack of consumer faith and ethical responsibility and, from a Sharīʿah Governance Theory perspective, it is the duty of technological stewardship as a moral duty to protect trust (amanah).

Without clear digital governance policies, Palestinian Islamic banks are at risk for reputational and operation damage. Cybersecurity and FinTech integration must become a regulatory imperative to comply with Sharīʿah principles of transparency, fairness, and protection of the property.

5.6. Lessons from Malaysia's centralized governance model

Nearly all respondents gave Malaysia's experience as a benchmark for reform. The centralized network of Sharīʿah governance system and training ecosystem backed by the state were cited again and again as the most effective elements.

> "Malaysia's model works because it combines central authority with capacity building. Palestine needs both." (R7, Academic) "We should not copy blindly but adapt Malaysia's system to our regulatory context." (R11, Bank Manager)

The theoretical integration is represented by this theme in this study. The Malaysian model has what is called Agency Theory (limitation of managerial discretion), Stakeholder Theory (inclusive governance for all actors) and Sharīʿah Governance Theory (institutional accountability and religious legitimacy).

For Palestine, it is not so much adopting Malaysia's model wholesale as it is adapting the principles of that model to local realities - finding a balance between central oversight and autonomy, and modernization and Sharīʿah authenticity.

5.7. Summary of emergent themes

The overall findings disclose that governance challenges of the Palestinian Islamic banks are associated with structural, human and technological deficiencies that hinder compliance, accountability and trust. The Malaysian model shows how coherent regulation, qualified expertise and digital innovation can combine to improve the effectiveness of governance. The results thus verify the conceptual integration of the Agency, Stakeholder, and Sharīʿah Governance Theories in this study, showing that multi-layered governance using the combined ethical, managerial, and institutional dimensions is necessary for the sustainable Islamic banking systems.

6. Discussion

6.1. Synthesis with the theoretical frameworks

The results of this study validate the usefulness of Agency Theory, Stakeholder Theory and Sharīʿah Governance Theory as complementary analytical tools for describing governance in Islamic banking institutions in Palestine and Malaysia.

In terms of Agency Theory, the lack of a central Sharīʿah governance authority in Palestine increases the agency issues in which individual banks function as a semi-autonomous agent in the absence of a proper controlling authority. This creates information asymmetries, lack of consistent compliance and possible self-interest behavior which is highlighted by interviewees time and again (R3, R8). Conversely, the centralized system of governance in Malaysia under the jurisdiction of the Sharīʿah Advisory Council of Bank Negara Malaysia (BNM-SAC) serves as an illustration of how the principal-agent alignment could help in reducing moral hazard and ensure discipline in operations (Hasanah et al., 2024).

Stakeholder Theory also sheds further light on the socio-ethical aspect of governance, where governance effectiveness is beyond shareholders to other stakeholders such as depositors, regulators and the Muslim community. Lack of trained professionals in Sharīʿah governance - the scarcity of experienced Sharīʿah governance professionals in Palestine does not meet these stakeholders' expectations on ethical integrity and transparency. As R2 put it, "Untrained professionals cannot achieve its social responsibility to the public." This failure undermines the Maqāṣidic goal of justice and social welfare, a theme which is further supported by a recent empirical evidence produced in Indonesia and Pakistan (Saâdaoui & Khalfi, 2024).

Finally, Sharīʿah Governance Theory shares the religious-legal basis for analyzing governance failures. Malaysia's SGPD (BNM, 2019) moralizes the reality of Islamic governance through its operationalized structures, whereas Palestinian institutions are not centralized enough to make them accountable in any meaningful way for their moral responsibility (amanah). Thus, it is the combination between these three theories that explains not only the structural but the ethical basis of governance weaknesses in Palestine.

6.2. Comparative insights: Palestine vs. Malaysia

The comparative dimension allows for striking institutional asymmetries between the two systems to emerge.

Regulatory Centralization: Malaysia has a hierarchical regulatory system with BNM ensuring consistent Sharīʿah rulings among the financial institutions and less contradictions in interpreting the Sharīʿah. In Palestine on the other hand, each bank sets up its own compliance standards, thus creating fragmented regulatory landscapes. This was described as "a patchwork of Sharīʿah rules without a clear vision" (R4). Such fragmentation affects the standardization, enforcement and cross-institutional trust which is a fundamental prerequisite for financial stability (Zuhroh, 2022).

Human Capital and Training: Knowledge on Sharīʿah governance has been developed in Malaysia by institutionalizing it in the form of International Centre of Education in Islamic Finance (INCEIF) and ISRA Research Academy. In contrast, Palestine does not have a formal education system and no certification system, thus leaving it with a bad base of skilled professionals. This in turn reduces strategic innovation as well as the compliance of regulations (Fatmawati et al., 2022).

Corporate Governance: Malaysia has high score on independent boards, risk management committees and transparent disclosure practices which help in increasing the accountability and trust of the stakeholders (Meskovic et al., 2024). Palestinian Islamic banks, on the other hand, have a high managerial concentration and low transparency which indicates unsolved problems of agency conflicts. As R9 said "Our boards are not autonomous, they are more advisory bodies." This is one of the basic flaws on governance having direct impact on the financial performance and market perception.

Digital Governance: The fusion of the technological progress and religious accountability in Malaysia FinTech, Blockchain and AI enabled Sharīʿah compliance tool represents digital governance. On the other hand, Palestine is at the "embryo" stage where it lacks the digital literacy and cybersecurity infrastructure. Respondents understood that a lack of digital regulation is lowering the barriers against fraud and inefficiency.

Overall, the comparative analysis puts the Malaysia case in perspective in terms of best practice, not to be replicated, but to be learnt from. Certain governance reforms are needed in the Palestinian context based on the institutional reality in the field and the lessons learned from the Malaysian experience.

6.3. Integration with previous literature

The current findings support and build on previous studies of Islamic banking governance. Past research (Billah & Fianto, 2021; Alam & Miah, 2024) has revealed the same structural voids, yet this research provides an empirical insight by providing first-hand accounts of governance professionals. The qualitative evidence is consistent with Mollah et al. (2017) and Aslam et al. (2024) who highlighted the relationship between corporate and Sharīʿah governance for institutional performance.

However, unlike research limited to the macro level of policy, this research documents the micro-level governance practices and attitudes of stakeholders in Palestine and provides a more grounded understanding of how regulatory fragmentation plays out in practice. Furthermore, the role of digital governance identified here broadens the conceptual scope of the literature and relates it to the developing Islamic cyber-ethics and FinTech regulations discourse (Uddin et al., 2024).

Taken together, these findings lend credence to the contention that successful Islamic banking governance is inherently multi-dimensional and that regulatory, ethical and technological reforms need to be co-ordinate.

6.4. Policy and practical implications

The findings hold substantial implications for regulators, policymakers, and Islamic banking practitioners:

(a) For Regulators (Palestine Monetary Authority – PMA):

- Establish a National Sharīᶜah Governance Council (NSGC) modeled on Malaysia's BNM-SAC to standardize compliance practices and issue binding resolutions.
- Develop a national accreditation and training framework for Sharīᶜah governance professionals in collaboration with international institutions.
- Introduce cyber-governance guidelines ensuring that FinTech and AI applications comply with Islamic ethics and data protection norms.

(b) For Islamic Banks:

- Enforce board independence and periodic Sharīᶜah audits to reduce managerial discretion and enhance accountability.
- Integrate digital transformation strategies with Sharīᶜah compliance systems to improve operational efficiency.
- Promote transparency and stakeholder communication through standardized reporting formats consistent with AAOIFI and IFSB guidelines.

(c) For Educational Institutions:

- Establish joint degree and certification programs in Islamic governance and FinTech to bridge the competency gap.
- Foster knowledge transfer partnerships with Malaysian universities to build a sustainable governance ecosystem.

6.5. Theoretical contributions

This study contributes to theory-building by demonstrating the complementary utility of three theoretical lenses rather than relying on a single paradigm.

- Agency Theory elucidates structural misalignments and governance failures caused by the lack of oversight and accountability mechanisms.
- Stakeholder Theory expands the ethical and social dimensions of governance, underscoring that financial institutions bear responsibilities to broader constituencies.
- Sharīᶜah Governance Theory bridges these two paradigms, anchoring governance in Islamic jurisprudence, thereby merging economic rationality with moral accountability.

By empirically proving the interdependence of these frameworks, the study puts forward a hybrid theoretical model for Islamic banking governance that combines ethical, managerial and technological imperatives. This volume makes a valuable contribution to the literature, which has tended to treat these theories in isolation.

6.6. Summary of the discussion

The theoretical and comparative synthesis indicates that the Islamic banking governance of Palestine is at the mercy of the structural fragmentation, lack of skills and digital incompatibility and the combination of these attributes jeopardize accountability and compliance integrity. The success of Malaysia is the interaction among the three factors: centralized regulation, institutional capacity building and technological integration, and the three factors complement each other.

The study thus argues that sustainable reform in Palestine requires:

1. Establishing centralized oversight.
2. Building human and institutional capacity.
3. Embedding technological governance into Sharīᶜah compliance systems.

Such reforms would not only align Palestine's Islamic finance ecosystem with global best practices but also embody the maqāṣid al-sharīʿah by promoting justice, transparency, and public welfare.

7. Conclusion and recommendations

7.1. Summary of key findings

This research has touched on the topic of governance challenges that Islamic banks are facing in Palestine and learnt comparative lessons from the centralized model of Malaysia. The study found based on structured expert interviews and document analysis five dimensions of governance including: (1) regulatory fragmentation, (2) lack of qualified Sharīᶜah governance professionals, (3) poor corporate governance, (4) low digital governance capacity and (5) lack of institutional learning mechanisms.

The Palestinian Islamic banks are operating in a decentralized system with poor quality of compliance and supervision. On the other hand, Sharīᶜah Governance Policy Document of Malaysia (BNM, 2019) states that the system of regulatory integration, continuous capacity building and technological flexibility is able to establish a harmonized and stable system of governance.

7.2. Empirical and theoretical conclusions

Empirically, governance effectiveness in Islamic finance is multidimensional, requiring alignment among regulatory authority, ethical accountability, and digital adaptation.

Theoretically, this study integrates three perspectives:

- Agency Theory explains the governance gap created by weak oversight.
- Stakeholder Theory highlights broader social accountability toward depositors and the public.
- Sharīʿah Governance Theory anchors governance in maqāṣid al-sharīʿah, emphasizing amanah (trust) and ethical transparency.

Together they form a hybrid theoretical model capable of explaining both managerial and moral dimensions of governance.

7.3. Policy and practical recommendations

(a) For Regulators (PMA):

1. Establish a National Sharīʿah Governance Council (NSGC) issuing binding resolutions for all Islamic financial institutions.
2. Create a national accreditation and training framework for Sharīʿah-governance professionals.
3. Implement mandatory Sharīʿah audits and disclosure standards aligned with AAOIFI (2024) and IFSB (2020).
4. Adopt digital-governance and cybersecurity regulations ensuring FinTech compliance with Islamic ethics.

(b) For Islamic Banks:

1. Reinforce board independence and clear role separation.
2. Institutionalize continuous professional training for compliance officers.
3. Enhance transparency and risk-management systems.
4. Integrate ethical AI and secure FinTech tools within Sharīʿah frameworks.

(c) For Academic and Training Institutions:

1. Launch joint certification programs with Malaysian partners (ISRA, INCEIF).
2. Promote research collaborations assessing governance-reform outcomes.
3. Develop specialized curricula combining Sharīʿah law, corporate governance, and digital finance.

7.4. Limitations and future research

The qualitative design and small expert sample limit generalizability, and future reforms or technological advances may alter outcomes. Subsequent studies should:

- Quantitatively test relationships using SEM or PLS-SEM.
- Conduct broader cross-country comparisons.
- Examine AI-based Sharīʿah auditing and blockchain-driven compliance systems.

Table 1. Summary of key findings, theoretical linkages, and policy implications.

Key Finding	Theoretical Linkage	Policy Implications
Fragmented Sharīʿah and regulatory governance	Agency Theory + Sharīʿah Governance Theory → lack of oversight and ethical accountability	Establish NSGC with binding authority to unify rulings
Shortage of qualified Sharīʿah-governance experts	Stakeholder Theory → failure to meet societal expectations	Launch national training / certification programs with ISRA, INCEIF, AAOIFI
Weak corporate-governance and board independence	Agency Theory → managerial dominance	Enforce board independence, periodic audits, and clear role separation
Digital-governance and cybersecurity deficits	Sharīʿah Governance Theory + Stakeholder Theory	Introduce ethical digital-governance frameworks for FinTech and AI
Malaysia's centralized model as reform benchmark	Integrated Theoretical Model	Adapt BNM–SAC framework to Palestinian context
Low stakeholder trust and instability	Stakeholder Theory	Enhance transparency and communication mechanisms
Need for ethical technological innovation	Sharīʿah Governance Theory	Develop AI-assisted Sharīʿah auditing and ethical-FinTech standards

Source: Author's conceptualization derived from qualitative data (Feb. 2025)

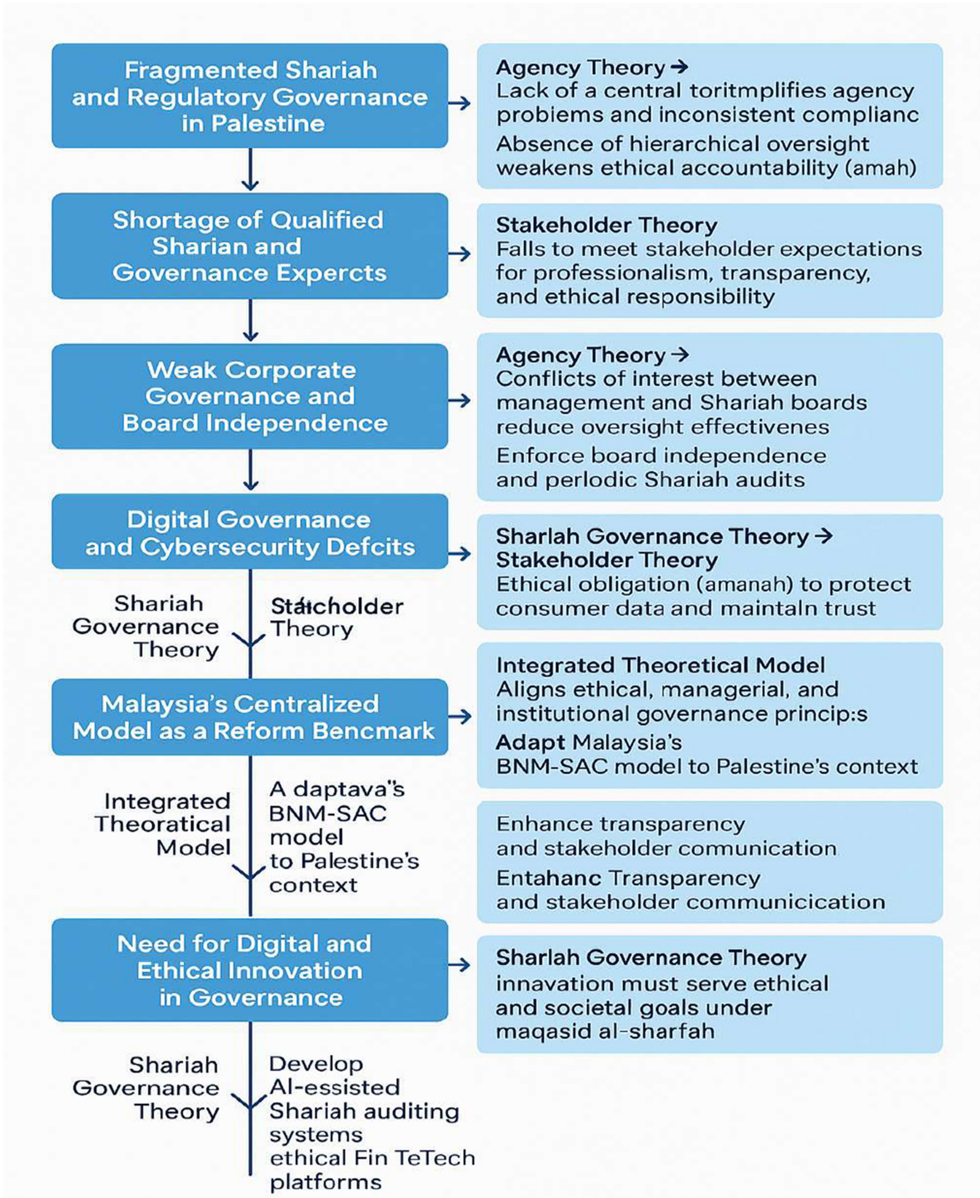

Fig. 3. *Integration of Key Findings, Theoretical Frameworks, and Policy Implications.*
Source: Author's conceptualization derived from qualitative data (Feb. 2025)

7.5. Concluding reflection

Islamic-banking governance is not just a regulative requirement, but also a moral and social obligation. By using Malaysia's experience to the institutional life in Palestine, the policymakers can achieve an integrated governance that would guarantee the Sharīʿah compliance, financial stability and regain the confidence of the stakeholders so that the ideals of Maqāṣid al-sharui'ah, which are justice, transparency and social welfare, can be achieved.

Conflict of interest

The author's declare no conflict of interest.

AI usage statement

The authors confirm that no generative artificial intelligence tools were used to generate the research content. AI tools were used only for language editing and formatting under full human supervision.

Data availability

The datasets generated and/or analyzed during the current study are available from the corresponding author on reasonable request.

Author contribution

Conceptualization and study design: M.A.A.O.; Data collection and analysis: M.A.A.O.; Writing — original draft: M.A.A.O.; Writing — review & editing: A.O.H.S. Supervision: A.O.H.S; F.M.O.A.

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سد فجوات الحوكمة في المصارف الإسلامية: مقارنة بين فلسطين وماليزيا

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المستخلص: تُركز هذه الدراسة على أهم قضايا الحوكمة التي تواجهها المؤسسات المصرفية الإسلامية في فلسطين، وتناقش ما يُمكن استخلاصه من التجربة الماليزية في تحسين حوكمة المؤسسات المصرفية الإسلامية، بما يُحسّن كفاءة الحوكمة، والالتزام بالشريعة الإسلامية، والرقابة التنظيمية. وباتباع المنهج النوعي، استندت الدراسة إلى البيانات المُجمعة من المقابلات مع الخبراء، وتحليل الوثائق، ودراسات الحالة المُقارنة في كلا البلدين. وتشير النتائج إلى أن غياب جهة مركزية للرقابة، ونقص الخبرة المهنية، وعدم كفاية الأطر الداخلية المُحددة، تُعيق بشكل كبير فعالية الحوكمة في المصارف الإسلامية الفلسطينية. إضافة الى بطء التحول الرقمي، وغياب سياسات الأمن السيبراني. في المقابل، تمتلك ماليزيا نظام حوكمة شاملاً قائماً على الرقابة المركزية والتطوير المؤسسي، مما يُوفر مرجعاً واقعياً للإصلاح. وتُقدم الدراسة توصيات لإنشاء هيئة وطنية مُوحدة للحوكمة، وتحسين التدريب المهني في مجال التنظيم المالي الإسلامي، وتعزيز استقلالية مجالس الإشراف. كما تُشدد على أهمية نظم حوكمة رقمية مُكثفة ونظم أمن سيبراني تُمكّن من دمج التكنولوجيا المالية وتعزيز المرونة المؤسسية.

الكلمات الدَّالة: حوكمة المصارف الإسلامية، الرقابة التنظيمية، الالتزام بالشريعة الإسلامية، فلسطين، ماليزيا.

تصنيف JEL: G21, G28, P43, Z12, O16

تصنيف KAUJIE: G1, G12, G15, G13, E2