THE SHARIAH HEALTH ASSESSMENT FRAMEWORK: GOVERNANCE SCORING AND PREFERENCE SIGNALS IN ISLAMIC FINANCE

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ABSTRACT

Research Question/Issue: How can the governance quality of preference-constrained financial institutions be made observable, comparable, and decision-useful to external investors? Existing compliance classifications produce no meaningful differentiation within the eligible universe, leaving genuine governance quality invisible to capital markets despite its demonstrable variation across institutions and jurisdictions.

Research Findings/Insights: This paper introduces the Shariah Health Assessment Framework (SHAF) -- a twelve-domain weighted scoring architecture producing a composite institutional governance score and a set of derived governance signal variables. An illustrative application to five institutions across four jurisdictions generates a nearly ten-point composite spread within a single rating category, demonstrating material governance differentiation where existing compliance frameworks produce none. Shariah non-compliance risk management emerges as the most consistently opaque governance domain across all five jurisdictions and all regulatory architectures.

Theoretical/Academic Implications: SHAF extends comparative governance measurement to a preference-constrained institutional context, demonstrating that governance quality can be rendered externally observable and comparable even in institutional settings defined by values-based constraints. The framework is theoretically grounded in the Popularity Asset Pricing Model, which provides a mechanism through which governance observability affects capital allocation. An empirical validation pathway against Sukuk spread outcomes is specified for Phase II.

Practitioner/Policy Implications: For capital allocators, SHAF provides a structured due diligence instrument that makes within-category governance differentiation legible where conventional assessments cannot. For regulators and standard-setters, cross-institutional results identify Shariah non-compliance risk disclosure as the governance domain where standardization would most improve capital market legibility.

Keywords: governance measurement, Islamic financial institutions, Shariah governance, governance observability, preference-constrained investing, scoring architecture, Shariah non-compliance risk, governance signal variables

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INTRODUCTION

Corporate governance scholarship has long recognized that governance quality is not binary. Firms and financial institutions differ materially in the independence of oversight structures, the rigor of internal audit mechanisms, the transparency of risk management processes, and the depth of disclosure -- differences that matter to investors, regulators, and other stakeholders but that categorical compliance assessments cannot capture. The governance measurement literature has accordingly invested substantially in constructing indices, scoring architectures, and composite instruments that convert governance quality into comparable, institution-level signals. Yet this measurement infrastructure has been developed almost exclusively for conventional institutional contexts. A substantial class of financial institutions operating under preference-constrained governance architectures -- institutions whose governance structures are shaped by binding investor or stakeholder value constraints -- remains without a standardized, cross-jurisdictionally comparable governance assessment instrument.

The governance measurement gap is most visible and most consequential in Islamic financial institutions. Islamic banks and Takaful operators constitute a USD 4 trillion asset class. They apply systematic governance requirements codified in AAOIFI and IFSB standards, overseen by Shariah Supervisory Boards, and subject to jurisdiction-specific regulatory frameworks. These institutions carry a governance architecture that is structurally distinct from conventional banks. The two-tier oversight structure in which SSB independence, product approval rigor, Shariah non-compliance risk management, and Maqasid alignment function as governance dimensions has no conventional analogue. Yet capital allocators, regulators, and institutional stakeholders evaluating these institutions have no instrument for assessing that governance quality on a comparable basis. Current practice relies on binary compliance classification, SSB reputation, and management engagement -- inputs that are informative but neither systematic nor comparable across institutions or across jurisdictions. The result is that genuinely different governance quality is treated as equivalent, creating a measurement failure with direct implications for how capital is allocated, how risk premiums are set, and how governance improvement is incentivized.

This paper introduces the Shariah Health Assessment Framework -- a twelve-domain weighted scoring architecture designed to make the governance quality of Islamic financial institutions externally observable, reproducible, and cross-jurisdictionally comparable. SHAF addresses the measurement failure directly: it converts governance quality into a scored, domain-level institutional assessment that can be applied externally by investors conducting due diligence, or internally by institutions benchmarking their governance posture. The framework is theoretically grounded in the Popularity Asset Pricing Model, which provides a mechanism through which governance observability affects capital allocation: any characteristic investors systematically care about generates a durable pricing gradient, establishing governance observability as a structural prerequisite for preference-driven demand concentration. An illustrative application to five institutions across four jurisdictions generates a nearly ten-point composite spread within a single rating category, demonstrating material governance differentiation where existing compliance classifications produce none. Shariah non-compliance risk management emerges as the most consistently opaque governance domain across all five jurisdictions -- a finding with direct implications for disclosure standard-setting.

The contribution of this paper sits at the intersection of two governance scholarship streams that have not previously been connected. The first is the governance measurement literature, which has documented the consequences of governance rating divergence for capital allocation and institutional accountability. Berg, Koelbel, and Rigobon (2022) established that ESG ratings from major providers diverge so substantially as to be analytically unreliable, obscuring the governance differentiation that preference-driven capital requires to allocate. Gompers, Ishii, and Metrick (2003) demonstrated that composite governance indices generate meaningful cross-sectional variation in firm outcomes even where individual governance indicators do not. The second stream is the Islamic banking governance literature, which has documented substantial variation in Shariah governance quality across institutions and jurisdictions but has not produced an instrument that makes that variation measurable and comparable. Safieddine (2009) identified the structural distinctiveness of Islamic banking governance and the agency theory implications of the two-tier oversight architecture. Mollah and Zaman (2015) demonstrated empirically that Shariah supervision affects bank performance in ways that conventional governance frameworks cannot capture. What has remained absent is the measurement bridge between these two streams.

SHAF is designed to be that bridge. Three aspects of the framework design deserve explicit statement. First, SHAF measures governance quality as observable to external investors from publicly available disclosures, not internal governance quality per se. Only observable governance characteristics can generate the preference-driven demand concentration that the pricing mechanism requires. Second, the domain weights are theoretically derived rather than empirically calibrated; empirical calibration against Sukuk spread outcomes is the function of a Phase II study. Third, the five-institution illustrative application demonstrates that SHAF can be operationalized from publicly available institutional data and generates internally differentiated composite scores. No inferential claims are made from a sample of five institutions.

The paper proceeds as follows. Section II reviews the governance measurement and Islamic banking governance literatures and identifies the integrated gap SHAF addresses. Section III develops the conceptual foundation and scoring architecture. Section IV presents the twelve-domain framework. Section V applies SHAF across five institutions. Section VI develops theoretical implications and the Phase II empirical validation pathway.

II. LITERATURE REVIEW

II.1 Governance Measurement: Indices, Divergence, and the Comparability Problem

Prior work in governance measurement demonstrates that composite scoring architectures generate cross-sectional variation in institutional outcomes even where categorical assessments cannot. Gompers, Ishii, and Metrick (2003) constructed a twenty-four provision governance index and demonstrated that composite governance scores generate meaningful cross-sectional variation in firm value. Bebchuk, Cohen, and Ferrell (2009) demonstrated that a parsimonious six-provision entrenchment index captures most of the governance variation attributable to the broader index, establishing that domain weighting matters for measurement validity. The governance index literature also established a design constraint that SHAF inherits directly: scoring architectures must be grounded in theoretically motivated domain selection, not opportunistic indicator aggregation, to produce valid cross-institutional comparisons.

The ESG measurement literature extends this framework to preference-sensitive institutional contexts and surfaces the measurement failure most directly analogous to the gap SHAF addresses. Berg, Koelbel, and Rigobon (2022) documented that ESG ratings from major providers diverge so substantially -- with pairwise correlations averaging 0.54 -- that they cannot reliably serve as the preference signals that governance-conscious capital requires. The source of divergence is primarily scope disagreement: rating providers differ on which governance dimensions constitute ESG quality. Chatterji, Durand, Levine, and Topaloglu (2016) confirmed that this divergence is not reducible to information asymmetry -- raters accessing identical disclosed information reach materially different conclusions -- indicating that definitional precision in scope and criterion specification is the primary determinant of measurement reliability.

Bushman and Smith (2001) documented that financial transparency reduces information asymmetry between managers and capital markets in ways that affect the cost of capital and the efficiency of investment. Healy and Palepu (2001) identified voluntary disclosure as a mechanism through which governance quality becomes legible to external stakeholders, noting that the value of disclosure depends on its verifiability. A disclosed governance commitment that cannot be traced to specific evidence in public documents functions as a weaker signal than one that can. This verifiability requirement is directly incorporated into SHAF's confidence flag architecture, which distinguishes High, Medium, and Low evidence quality and penalizes composite scores where governance claims cannot be confirmed from specific public disclosures.

II.2 Shariah Governance Frameworks

The governance of Shariah compliance in Islamic financial institutions has attracted sustained regulatory and scholarly attention since the early 2000s. The IFSB guiding principles on Shariah governance (IFSB-10, 2009), the national frameworks issued by Bank Negara Malaysia (BNM, 2019), the Central Bank of the UAE (CBUAE, 2023), and the State Bank of Pakistan (SBP, 2024) represent the most authoritative expressions of current regulatory expectations for SSB independence, product approval rigor, and internal audit functioning.

Safieddine (2009) established the foundational theoretical contribution: Islamic banking governance is structurally distinct from conventional corporate governance because the agency relationships are more complex. The separation between investment account holders' control rights and shareholders' ownership rights, mediated by an SSB whose authority is simultaneously religious and fiduciary, creates a multi-principal governance structure without direct conventional analogue. This structural distinctiveness is not merely a feature of Islamic finance as a specialty domain; it is a corporate governance problem with implications for how oversight independence, conflict of interest management, and accountability mechanisms should be designed and assessed.

Mollah and Zaman (2015) provided the first large-sample empirical evidence that Shariah supervision affects bank performance in ways that conventional governance frameworks do not capture, using a matched sample of Islamic and conventional banks across 28 countries. Safiullah, Miah, Azad, and Hassan (2024) found that board governance quality positively influences Shariah governance quality. Azmi, Hassan, Razak, and Ali (2025) linked SSB reputation directly to intermediation margins -- the most direct empirical evidence to date that governance signals in Islamic financial institutions affect pricing outcomes. Academic work has examined how well institutions meet regulatory expectations in practice: Grais and Pellegrini (2006) identified substantial variation in SSB competence, independence, and disclosure practices across jurisdictions, while Hasan (2011) documented significant inconsistencies across Malaysia, the GCC, and the UK. What this body of work has not produced is a framework that translates governance standards into a scored, weighted, institution-level assessment capable of differentiating institutions on a comparable basis.

II.3 Maqasid al-Shariah Performance Measurement

A parallel stream of scholarship has sought to evaluate Islamic institutions against the higher objectives of Islamic law rather than compliance thresholds alone. The foundational contribution is the Maqasid-based performance measurement model of Abdul Razak, Mohammed, and Taib (2008), subsequently validated by Mohammed and Taib (2015) on a sample of 24 banks. Mergaliyev, Asutay, Avdukic, and Karbhari (2021) augmented this framework with an ethical performance layer, while Ammar (2023) applied a twelve-dimension index to ten large Islamic banks globally. Across this literature, Maqasid indices function as standalone performance measures and have not been integrated into broader institutional health assessments encompassing governance quality, audit rigor, and risk management capacity. SHAF addresses this by incorporating a Maqasid domain within the composite scoring architecture, with an override mechanism that prevents procedural compliance from masking the absence of substantive institutional purpose.

II.4 Shariah Non-Compliance Risk

Shariah non-compliance risk has been recognized as a component of operational risk since IFSB-10 (2009). Oz, Ali, Khokher, and Rosman (2016) analysed data from 51 Islamic banks across 11 countries in the most comprehensive empirical treatment to date. Muhamad Sori, Mohd Yusoff, Mohamad, and Muneeza (2025) examined 207 annual reports and found that most institutions confine SNCR disclosure to Shariah Committee Reports rather than integrating it into financial statements or Pillar 3 disclosures. Neither study proposes a practitioner instrument for scoring the quality of SNCR management infrastructure. SHAF provides that instrument through Domain IV.

II.5 The Integrated Gap

The five literature streams reviewed above provide well-developed but disconnected contributions to the problem of assessing governance quality in Islamic financial institutions. No published framework integrates these dimensions into a single, scored, weighted assessment tool applicable across institution types and jurisdictions. The measurement gap that Berg, Koelbel, and Rigobon (2022) documented for ESG -- ratings that diverge so substantially as to be analytically unreliable -- exists in Islamic financial institution governance in a more acute form: not divergent ratings, but no comparable ratings at all. SHAF is designed to bridge all five literature streams in a single investment-relevant instrument.

III. CONCEPTUAL FOUNDATION AND FRAMEWORK DESIGN

III.1 The Case for an Integrated Scoring Architecture

The five literature streams reviewed in Section II share a common structural limitation: they address discrete dimensions of governance quality in Islamic financial institutions in isolation. An integrated scoring architecture addresses this limitation by treating institutional governance quality as a composite property -- one that cannot be adequately captured by any single measure but emerges from the interaction of oversight independence, audit rigor, risk management capacity, investment discipline, disclosure transparency, staff competency, and substantive alignment with Islamic economic objectives.

The case for integration is not merely additive. Weaknesses in any one domain compound weaknesses in others: poor governance independence produces weaker internal audit outcomes; inadequate Shariah non-compliance risk management produces disclosure gaps; low Maqasid scores may signal that structural compliance is masking the absence of genuine institutional purpose. A weighted composite score captures these interdependencies in a way that domain-specific assessments cannot. The framework is accordingly designed as a layered architecture. Domains I through VII address procedural and structural governance requirements applicable to all Islamic financial institutions. Domain VIII addresses substantive alignment with Islamic economic objectives. Domains IX through XI address Takaful-specific structural requirements. Domain XII addresses quantitative financial resilience under stress.

III.2 SHAF as a Governance Signal Architecture: The Five Derived Variables

For the framework to function as a governance measurement instrument rather than a compliance checklist, its domain scores must be translated into a set of derived variables that capture distinct, observable dimensions of governance quality in a form that is observable, interpretable, and decision-useful to external stakeholders. SHAF produces five governance signal variables from its domain scoring output, formally specified in the companion Online Supplement.

Governance Strength is computed as a weighted average of Domain I (Shariah Governance Structure), Domain II (Product Approval and Contract Authenticity), and Domain III (Internal Shariah Audit), with weights of 40%, 40%, and 20% respectively. It captures core structural governance quality -- the independence and authority of the SSB, the rigor of the product approval gate, and the functioning of the internal audit mechanism. Disclosure Reliability is computed as the Domain VI score multiplied by the mean confidence flag across all domains, where High confidence maps to 1.0, Medium to 0.6, and Low to 0.3. The multiplicative specification reflects the interaction between disclosure quality and evidentiary confidence. Shariah Credibility Intensity is the simple average of Domain I, Domain IV, and Domain V normalized scores, capturing whether compliance is substantive rather than documentary. Institutional Discipline is the average of Domain III, Domain IV, and Domain V for Islamic banks, capturing the operational governance layer. Transparency-Adjusted Score is the composite score multiplied by a disclosure quality multiplier, preventing strong disclosure claims from masking weak governance.

These five governance signal variables are not arbitrary aggregations. They represent the minimal set of governance characteristics that simultaneously satisfy three conditions: first, observability to external investors from publicly available disclosures; second, direct mapping to documented governance failure pathways in the IFSB, AAOIFI, and empirical literature; and third, theoretical consistency with how governance characteristics influence stakeholder evaluation and resource allocation in values-constrained institutional settings.

III.3 Domain Weighting Rationale

The weighting architecture reflects a judgment about causal primacy: which governance failures most reliably produce the downstream outcomes -- non-compliance events, disclosure gaps, stakeholder confidence erosion -- that constitute the governance signal gap. Domains I and II carry 20% weightings each for Islamic banks because SSB independence and product approval rigor are the structural conditions on which every downstream governance commitment depends. IFSB-10 and AAOIFI Governance

Standards place them at the apex of the governance hierarchy. Domains III and IV carry 15% weightings as the operational test of commitments established at the structural level. Domains V, VI, and VII carry 10% each. For Takaful operators, Domains I and II carry 15% each, with the recovered 10% redistributed to Takaful-specific modules.

These weights are theoretically derived rather than empirically calibrated -- empirical calibration is the function of the Phase II Bayesian study described in Section VI. A sensitivity analysis confirms that the composite ranking of the five illustrative institutions is stable across plausible weight perturbations of plus or minus 5% per domain. The current weighting hierarchy would be challenged if variables derived from lower-weighted domains consistently proved more informative of institutional outcomes than those derived from higher-weighted domains.

III.4 The Maqasid Integration Decision

The framework adopts an override mechanism rather than proportional weighting. A Maqasid al-Shariah Index score below 50 prevents the institution from achieving a rating above Shariah Sound regardless of its procedural compliance score. The 50-point threshold is empirically anchored in Ammar (2023), who applied the Mohammed and Taib (2015) methodology to ten large Islamic banks: institutions below 50 exhibit negligible activity across the preservation-of-intellect and wealth-distribution objectives, indicating that institutional purpose is primarily procedural rather than substantive.

Governance scholarship recognizes that institutional legitimacy depends not only on process quality but on whether governance structures serve their intended purpose. An institution that passes every structural governance test while financing no socially beneficial sectors or replicating conventional fixed-return structures within Islamic contractual forms has achieved formal compliance without the substantive accountability that compliance is designed to secure. The override ensures the composite score reflects this accountability dimension. The Maqasid supplementary score is reported alongside the composite score regardless of whether the override is triggered.

IV. THE SHARIAH HEALTH ASSESSMENT FRAMEWORK

The SHAF comprises twelve domains organized into three layers. The first layer addresses universal governance requirements applicable to all Islamic financial institutions. The second layer addresses substantive alignment with Islamic economic objectives. The third layer addresses institution-specific structural requirements and quantitative financial resilience. Each domain is assessed on a standardized scale and aggregated into a composite institutional governance score using the weighting architecture in Table I. Table II presents the rating scale against which composite scores are interpreted. The complete criterion-level scoring rubrics for all twelve domains are provided in the companion Online Supplement.

[Table I and Table II appear after the reference list]

Domain I -- Shariah Governance Structure

The independence and authority of the Shariah Supervisory Board is the structural condition on which every downstream governance commitment in an Islamic financial institution depends. The governance literature on board independence establishes that structural independence from management is a prerequisite for effective oversight rather than a guarantee of it (Fama and Jensen, 1983); the Islamic banking governance literature documents that this principle applies with particular force to SSBs given the multi-principal agency structure Safieddine (2009) identified. Domain I operationalizes SSB independence against AAOIFI Governance Standard No. 1 and IFSB-10 criteria: composition disclosure, remuneration independence, binding authority, Shariah Compliance Department structure and reporting lines, meeting frequency and documentation, and escalation protocol design.

Domain II -- Product Approval and Contract Authenticity

The product approval process is the operational interface between governance structures and the commercial activities those structures are designed to govern. Domain II assesses whether the approval process examines contract structure for substantive governance concerns rather than merely confirming product category compliance; whether technology implementation is reviewed before go-live; and whether post-launch monitoring mechanisms exist to detect execution deviations. The domain specifically addresses substance-over-form governance: whether institutions apply genuine risk-sharing and asset ownership principles or replicate conventional fixed-return structures within Islamic contractual forms.

Domain III -- Internal Shariah Audit

Internal audit functions serve the governance role of testing whether structural commitments translate into operational reality. Domain III assesses the governance infrastructure of the internal Shariah audit function -- the audit plan approval structure, transaction sampling methodology, IT audit trail coverage, rectification-verification cycle, and reporting line to the SSB and Board rather than to management alone. The literature on audit committee effectiveness establishes that the value of internal audit depends on its independence from management and its direct access to the oversight body (DeZoort and Salterio, 2001).

Domain IV -- Shariah Non-Compliance Risk Management

Shariah non-compliance risk is operationally distinct from other categories of institutional risk because its consequences extend beyond financial loss: a contract determined invalid may require complete unwinding, income derived from it must be purified, and the reputational consequences affect institutional legitimacy in ways that are difficult to quantify. Muhamad Sori et al. (2025) found that across 207 annual reports, SNCR disclosure is predominantly confined to Shariah Committee Reports and absent from financial statements, Pillar 3 disclosures, and enterprise risk management frameworks. Domain IV assesses whether institutions have built the governance infrastructure to manage SNCR proactively: a formal risk register, key risk indicators, real-time monitoring, and ERM integration. Its consistent production of the lowest domain scores across the illustrative application -- regardless of jurisdiction or regulatory architecture -- constitutes one of the most consequential findings of the illustrative application and the most directly actionable implication for disclosure standard-setting.

Domain V -- Investment Portfolio Screening

Domain V assesses whether the governance infrastructure supporting screening is substantive rather than documentary: whether a written SSB-approved policy exists and is applied at quarterly rather than annual frequency, whether index-linked investments are subject to underlying-asset transparency, and whether purification ratios are applied and disclosed. For Takaful operators, the domain additionally examines whether participant fund investments are screened separately from operator and shareholder funds.

Domain VI -- Financial Reporting and Disclosure

Disclosure is a governance mechanism as well as a regulatory obligation. The verifiability constraint that Healy and Palepu (2001) established is directly operationalized in this domain. Domain VI assesses AAOIFI Financial Accounting Standards compliance or explicit deviation disclosure; Zakat treatment and methodology; the presentation of restricted and unrestricted profit-sharing investment accounts as distinct balance sheet categories; and whether the SSB's annual Shariah compliance report is published in full. An SSB report that is not publicly available limits its ability to function as an accountability mechanism.

Domain VII -- Staff Competency and Shariah Culture

The organizational governance literature establishes that governance culture -- the internalization of governance values by personnel rather than merely their formal specification -- is a determinant of governance effectiveness distinct from structural design (Trevino, Weaver, and Reynolds, 2006). Domain VII assesses mandatory Shariah training coverage, product-specific technical training, and whether Shariah compliance performance is embedded in appraisal and remuneration frameworks. Cultural embedding without performance consequences is unlikely to produce durable behavioral change.

Domain VIII -- Maqasid al-Shariah Index

The literature on institutional purpose and stakeholder accountability establishes that governance legitimacy depends not only on compliance with procedural requirements but on whether institutional activities serve the purposes those requirements were designed to advance (Suchman, 1995). Domain VIII adapts the Maqasid performance measurement methodology of Mohammed and Taib (2015) and Ammar (2023), examining whether the institution's financing portfolio demonstrates active pursuit of social benefit, knowledge-sector engagement, and equitable wealth distribution. A Maqasid score below 50 triggers the override mechanism specified in Section III.4.

Domains IX through XI -- Takaful-Specific Modules

Takaful operates on the principles of mutual cooperation and charitable contribution. Its governance risks are structurally different from those of Islamic banks, and the framework accommodates this through three institution-specific domains. Domain IX addresses fund architecture and the strict segregation of the Participants' Takaful Fund from the operator's own funds. Domain X addresses surplus and deficit management: whether underwriting surplus is distributed to participants on a disclosed, SSB-approved basis, and whether the operator provides interest-free Qard Hasan in fund deficit scenarios. Domain XI addresses claims management and retakaful, including whether Shariah-compliant retakaful arrangements are preferred over conventional reinsurance.

Domain XII -- Quantitative Stress Tests

This domain operationalizes financial resilience as a governance-relevant constraint. Three stress scenarios are applied: capital adequacy under Shariah non-compliance stress; liquidity under Shariah-constrained conditions; and profit-sharing investment account displacement risk. Domain XII produces a Pass/Fail result; a failure on any scenario caps the composite rating regardless of structural governance performance. Full scenario parameters are specified in the companion Online Supplement.

V. ILLUSTRATIVE APPLICATION

The purpose of this section is to demonstrate that SHAF can be operationalized from publicly available institutional data, generates internally differentiated composite scores, and surfaces domain-level patterns that are both analytically meaningful and relevant to the empirical validation pathway developed in Section VI. No inferential claims are made from a sample of five institutions. The results should be interpreted as a structured illustration of the framework's discriminant properties and a source of hypotheses for Phase II, not as a test of the pricing mechanism.

V.1 Sample Design and Methodology

SHAF was applied to five institutions spanning four jurisdictions and distinct governance architectures: Maybank Islamic Berhad (Malaysia), Abu Dhabi Islamic Bank PJSC (United Arab Emirates), Meezan Bank Limited (Pakistan), Kuwait Finance House (Kuwait), and Al Rajhi Bank (Saudi Arabia). The sample was constructed to capture variation in regulatory architecture. Malaysia represents the most developed independent Shariah Committee model. Pakistan's SBP framework vests performance appraisal authority in the Shariah Board and mandates functional reporting independence from management. The UAE's Internal Shari'a Supervisory Committee model places governance within the institution's own chain of authority. Kuwait and Saudi Arabia provide two GCC comparators with distinct board constitution mechanisms.

Assessment relied exclusively on publicly accessible primary materials for 2024, including integrated annual reports, corporate governance reports, Shariah governance disclosures, and jurisdiction-level regulatory frameworks. A governance characteristic that exists internally but is not disclosed in verifiable form cannot function as an external signal; SHAF therefore treats public verifiability as a component of signal strength. All five sampled institutions are large, globally recognized Islamic financial institutions; confidence levels observed in this application likely overstate average conditions in a broader sample including mid-tier institutions or weaker-disclosure jurisdictions.

V.2 Composite Results and Within-Category Dispersion

All five institutions scored within the Shariah Sound band. Composite institutional governance scores ranged from 75.15 for ADIB to 84.7 for Meezan Bank, with Maybank Islamic at 81.5, Kuwait Finance House at 80.15, and Al Rajhi Bank at 83.15. Domain-level results are presented in Table 1. The nearly ten-point composite spread within a single rating category is the application's primary result. It establishes that institutions uniformly regarded as Shariah-compliant differ materially in governance architecture, operational intensity, and disclosure depth. Existing compliance classifications compress this variation into a binary; SHAF surfaces differentiation that is both analytically meaningful and directionally consistent with observable institutional outcomes.

[Table 1: SHAF Domain Scores appears after the reference list]

V.3 Shariah Non-Compliance Risk: The Cross-Institutional Pattern

Domain IV produces the lowest scores across the entire sample, ranging from 65 at ADIB to 76 at Meezan, regardless of jurisdictional model, board constitution, or overall institutional quality. In every sampled institution, SNCR is addressed through compliance statements and purification disclosures, but not through formal public risk registers, quantified Shariah Non-Compliance Income tracking, KRI reporting, or integration into Pillar 3 disclosures. The uniformity of this result identifies a structural feature of current Islamic financial institution disclosure practice rather than a firm-level management failure, and constitutes the single most consequential implication for disclosure standard-setting.

V.4 Jurisdictional Architecture as the Driver of Domain I Variance

The seventeen-point spread in Domain I scores -- from 74 at ADIB to 91 at Meezan -- is primarily a function of the legal and regulatory framework within which each institution operates. Pakistan's SBP framework mandates functional reporting independence and institutionalizes the Resident Shariah Board Member structure, yielding Meezan's score of 91. The UAE's Internal Shari'a Supervisory Committee architecture places governance within the institution's own chain of authority, constraining ADIB's Domain I score to 74. SHAF's Domain I results make this architectural variance explicit and decision-relevant for allocators evaluating institutions across jurisdictions.

V.5 Operational Intensity and Scholar Credibility

SHAF's assessment captures whether oversight is operationally active and evidenced in disclosed throughput. Al Rajhi's 2024 disclosures record 32 Council of Shariah meetings, more than 280 directives issued, and supervisory visits to more than 170 branch locations. Scholar credibility operates as a distinct governance characteristic: the presence of Justice (Retd.) Muhammad Taqi Usmani at Meezan creates an institutional credibility signal that cannot be reproduced through structural design alone, analogous to the reputational dimension of audit committee composition in conventional governance.

V.6 Preliminary Market Correspondence Assessment

To assess directional consistency between SHAF composite scores and observable market data, available USD Sukuk issuance data was reviewed for the three GCC institutions. ADIB, the lowest-scoring GCC institution at 75.15, paid the widest spread at 115 basis points over U.S. Treasuries. KFH priced at 105 basis points and Al Rajhi at approximately 100 basis points. This observation is presented as a preliminary consistency check using the validation logic applied in early work on governance and ESG measurement instruments. The observed ordering is directionally consistent with SHAF composite scores for the GCC sub-sample. Establishing whether SHAF composite scores systematically predict Sukuk spread outcomes across a broader sample is the function of Phase II.

V.7 Summary and Scoring Illustration

The illustrative application establishes discriminant validity -- SHAF produces analytically meaningful differentiation where binary compliance classifications do not -- and identifies SNCR disclosure and jurisdictional regulatory architecture as the two dimensions most consequential for understanding the governance measurement gap. A condensed scoring illustration for Domain IV at ADIB demonstrates reproducibility: CBUAE engagement (positive signal), programme-level SNCR disclosure (partial signal), absence of risk register, KRI tracking, Pillar 3 integration, and ERM integration (four negative signals) maps to the 51-75 band with a score of 65 and a Medium confidence flag. The complete scoring rubrics and inter-rater protocol are provided in the companion Online Supplement.

VI. THEORETICAL IMPLICATIONS AND GOVERNANCE MEASUREMENT CONTRIBUTION

VI.1 SHAF's Contribution to Governance Observability

The framework makes a specific theoretical contribution: governance quality in preference-constrained financial institutions is not inherently unobservable. It becomes observable when scoring architectures are grounded in documented regulatory standards, applied consistently from publicly available disclosures, and structured to differentiate within the compliance-eligible universe. The illustrative application demonstrates that this principle extends to preference-constrained institutional contexts: institutions uniformly classified as Shariah-compliant differ by nearly ten composite points in governance architecture, disclosure depth, and operational execution. The governance signal gap has persisted not because institutional quality is uniform but because the measurement infrastructure required to make variation observable has not previously existed in standardized, comparable form.

The five governance signal variables derived from SHAF's domain architecture capture dimensions of governance quality that are simultaneously observable from public disclosures, directly mapped to documented governance failure pathways, and theoretically consistent with how governance characteristics influence stakeholder evaluation and resource allocation in values-constrained institutional settings. Their utility for external stakeholders does not depend on the empirical validation of downstream market effects.

VI.2 The ESG Parallel and the Islamic Governance Distinction

The ESG measurement literature provides the most developed prior application of governance scoring to preference-sensitive institutional contexts. Both share the foundational challenge Berg, Koelbel, and Rigobon (2022) identified -- that governance-driven capital allocation requires scoring instruments capable of producing comparable signals, and that measurement divergence suppresses the governance differentiation that allocation requires. Islamic governance preferences are codified in AAOIFI and IFSB standards that specify, at the criterion level, exactly what governance quality means and how it is evidenced. ESG preferences, by contrast, are defined by competing methodologies producing materially different scores for the same institution. Chatterji et al. (2016) confirmed this divergence is not reducible to information asymmetry. SHAF's rules-based rubric addresses this imprecision directly, making governance differentiation more tractable as a decision-relevant signal than generic ESG scores can achieve.

VI.3 Institutional Preconditions for Governance Signal Legibility

The framework implies a set of institutional conditions under which governance signals become externally credible: independence from assessed entities, transparent and disclosed methodology, periodic recalibration against empirical outcomes, and sufficient replicability to allow independent verification. SHAF satisfies these conditions by design: the scoring rubrics are fully disclosed in the Online Supplement, the confidence flag architecture makes evidentiary quality explicit, the inter-rater protocol establishes a reproducible scoring process, and Phase II provides the recalibration mechanism. The cross-institutional SNCR finding is actionable for standard-setters independently of any market mechanism test.

VI.4 The Empirical Validation Pathway

The Phase II calibration study will test whether the five SHAF governance signal variables correspond systematically with Sukuk spread outcomes across a sample of at least one hundred scored Islamic financial institutions. The empirical application focuses on Sukuk spreads at issuance as an observable indicator of market reception. Lagged SHAF scores are used as predictors to preserve the temporal structure required for a credible test. The estimation methodology is Bayesian linear regression, incorporating theoretically derived domain weights as prior beliefs and producing credible intervals on each signal weight estimate. Jurisdiction-specific weight profiles will be estimated separately for Malaysian and GCC institutions.

The divergence between theoretically derived and empirically calibrated weights is not a limitation of the framework. Where calibration finds that a domain weighted at fifteen percent proves the strongest correspondent with observed outcomes, that finding refines the weighting architecture, provides evidence on how governance characteristics translate into market outcomes in this institutional context, and generates a publishable contribution to the governance measurement literature. This iterative relationship between theoretical design and empirical calibration is a defining feature of robust governance measurement instruments.

CONCLUSION

This paper has introduced the Shariah Health Assessment Framework and demonstrated a single foundational claim: that governance quality in Islamic financial institutions is not inherently unobservable. It varies materially across institutions and jurisdictions, it can be assessed from publicly available disclosures using a structured and reproducible methodology, and it produces differentiation within the compliance-eligible universe that binary classifications suppress entirely. The nearly ten-point composite spread generated across five institutions within a single rating band is not a surprising finding -- it is the expected consequence of applying a serious measurement instrument to a domain that has never had one.

The framework's most consequential contribution may not be the composite score itself but the architecture that underlies it. Integrating the Maqasid al-Shariah Index as an override mechanism rather than a supplementary measure makes a substantive governance claim: that procedural compliance without genuine institutional purpose is not governance quality, and that a scoring instrument which fails to make that distinction is measuring the wrong thing. The five derived governance signal variables translate domain scores into the dimensions of institutional quality legible to distinct external stakeholders, each of whom has a different use for governance information and a different standard of evidence required.

The illustrative application's most durable finding is not the composite spread but the SNCR pattern. Domain IV weakness is universal across all five institutions, all five jurisdictions, and all regulatory architectures. That consistency identifies a structural feature of current Islamic financial institution disclosure practice, not a firm-level management failure. It is the single most actionable implication this paper carries for standard-setters, and it does not require empirical validation of any market mechanism to be true.

The framework's limitations are real. Domain weights are theoretically derived, not empirically calibrated. Composite scores reflect disclosure quality as much as governance quality in weak-reporting environments. Cross-jurisdictional comparability is constrained without jurisdiction-specific weight adjustments. These define the research program that follows, not fatal limitations in a framework introduction paper.

Islamic financial institutions have achieved compliance standardization. Governance comparability is a different problem, and it remains unsolved. What SHAF provides is not a solution to that problem -- it is the measurement infrastructure without which the problem cannot even be precisely described. The question of whether governance quality in this institutional context corresponds with observable outcomes, influences how capital allocates, and responds to regulatory pressure is now, for the first time, an empirical question rather than a speculative one. That is what measurement does. It converts an assertion into a test.

DECLARATIONS

Conflict of Interest

The corresponding author is a general partner of a healthcare-focused private equity fund. This relationship is disclosed as a potential conflict of interest as the subject matter of this paper intersects with the author's professional activities. The co-author serves in an advisory capacity to an investment institution, also disclosed. Both authors have institutional interests in CFIIM -- Capital Formation in Islamic Markets, an independent Islamic finance research institution whose founding is described in this paper. This relationship requires explicit disclosure as a potential conflict of interest. The research was conducted independently and findings are reported objectively.

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TABLE I: Domain Weighting Architecture

Domain	Weight (Banks)	Weight (Takaful)	Key Standard
I. Shariah Governance Structure	20%	15%	AAOIFI GS 1-3; IFSB-10
II. Product Approval & Contract Authenticity	20%	15%	AAOIFI SS 8, 9, 12
III. Internal Shariah Audit	15%	10%	AAOIFI AS 6; BNM SGF 2019
IV. SNCR Management	15%	10%	IFSB-10; IFSB-15
V. Investment Portfolio Screening	10%	10%	AAOIFI SS 21
VI. Financial Reporting & Disclosure	10%	10%	AAOIFI FAS 1, 27; IFSB-31
VII. Staff Competency & Culture	10%	10%	SBP SGF 2024
VIII. Maqasid al-Shariah Index	Supplementary	Supplementary	Mohammed & Taib, 2015
IX-XI. Takaful-Specific Modules	N/A	20%	AAOIFI SS 26; IFSB-15
XII. Quantitative Stress Tests	Integrated	Integrated	IFSB-15; IFSB-16

Note. A Maqasid score below 50 overrides the composite rating, capping any institution at Shariah Sound.

A Domain XII Fail caps ratings at Shariah Sound.

TABLE II: Shariah Health Score Rating Scale

Score	Rating	Interpretation
90-100	Shariah Exemplary	Exemplary compliance in substance and spirit.
75-89	Shariah Strong	Strong compliance with isolated gaps.
60-74	Shariah Sound	Moderate compliance. Significant deficiencies identified.
45-59	Shariah Adequate	Systemic weaknesses. Remediation plan required.
Below 45	Shariah Deficient	Fundamental non-compliance. Regulatory intervention warranted.

TABLE 1: SHAF Domain Scores -- Five-Institution Illustrative Application

Domain	**Maybank**	**ADIB**	**Meezan**	**KFH**	**Al Rajhi**
I. Governance Structure	88	74	91	80	86
II. Product Approval & Authenticity	82	78	87	86	89
III. Internal Shariah Audit	80	82	84	83	85
IV. SNCR Management	72	65	76	70	68
V. Investment Portfolio Screening	85	76	88	78	86
VI. Financial Reporting & Disclosure	84	79	80	83	82
VII. Staff Competency & Culture	78	72	83	79	84
VIII. Maqasid (Supplementary)	71	68	73	72	72
XII. Stress Tests	Pass	Insuff.*	Pass	Insuff.*	Pass
Composite Score	81.5	75.15	84.7	80.15	83.15
SSB Model	Independent SC	Internal ISSC	External SSB + RSBM	GA-appointed FSSB	Council of Shariah
Rating Band	Sound	Sound	Sound	Sound	Sound

** Domain XII Scenario 1 could not be computed for ADIB and KFH due to insufficient public disclosure; Low confidence flag applied.*