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Does sharia governance in secular countries exist? Turkey and France experience

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Abstract

Purpose - This study seeks to answer the question, "does shariah governance exist in secular countries?" by examining Turkey and France as case studies.

Method - This study adopts Whittington's practice theory approach, with Shariah governance indicators carefully prepared. Content analysis is applied to data from regulatory websites, annual reports, and official bank websites in Turkey and France. Each piece of information that aligns with the predefined indicators is systematically compiled, enabling a comparative assessment of shariah governance regulations, structures, processes, and reporting practices across both countries.

Result - The study finds that shariah governance in secular countries varies significantly and is influenced by political will and regulatory frameworks. In France, Shariah governance remains undeveloped due to constitutional restrictions on religious intervention. In contrast, Turkey has institutionalized shariah governance, with TKBB issuing regulations and overseeing participation banks, yet weaknesses remain in governance structures and reporting standards. These findings reinforce Institutional Theory, demonstrating how political and regulatory environments shape the effectiveness of Shariah governance in secular states.

Implication - The study highlights how regulatory frameworks and political dynamics shape Shariah governance in secular contexts, offering insights for Islamic banks, regulators, and policymakers to strengthen governance to enhance compliance and ensure sustainability.

Originality - This is one of the first studies to investigate the existence of sharia governance in a country with a secular constitution and reveal how political dynamics may influence it.

Keywords: secular country; sharia governance; theory of practice; Islamic bank

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Introduction

The Islamic finance industry is a rapidly growing sector. This growth is evident from the significant annual increase in Islamic financial assets. A report titled Refinitiv Islamic Finance Development Report (RIFD) 2022, reveals that Islamic financial assets in 2021 reached \$3.9 trillion, which is projected to grow to \$5.9 trillion by 2026. This significant growth is dominated by the Islamic banking sector, which accounts for 70% of Islamic financial assets. The Islamic banking sector saw a 17% increase in 2021, with total assets amounting to \$2.7 trillion. This indicates strong demand and trust from the public in Islamic banking.

Several studies highlight public interest in Islamic banks due to their adherence to Sharia principles. A study in Jordan mentioned consumer interest as driven by the fact that Islamic banking operates and offers products in compliance with Islamic Sharia principles (Naser et al., 1999). However, more comprehensive studies indicate that attitudes, religiosity, culture, government support, and risk influence consumers' intentions to use Islamic banking. This underscores the critical role of governments in building systems to enhance public trust and reduce risks (Charag et al., 2020). Therefore, Islamic Financial Institutions (IFIs) need Sharia governance frameworks to ensure Sharia compliance and monitor banking operations in line with Sharia principles (Alam et al., 2021).

Today, the Islamic finance industry is not limited to countries with predominantly Muslim populations. It has expanded rapidly in countries with Muslim minorities and even in secular nations. This growth is driven by several factors, including demand from non-Muslims, banks' desire to enhance financial system growth, and significant migration of Muslim communities to various regions (Alam & Seifzadeh, 2020). However, the development of Islamic financial products in such countries faces two main challenges: Sharia compliance and imitation of conventional financial products (Dinc, 2020).

These explanations raise a critical question: how can the Islamic finance industry grow and gain public trust in countries with Muslim minorities or secular nations where Sharia compliance remains an issue? As previously mentioned, government support plays a significant role in shaping public attitudes toward Islamic banking. In countries with Muslim minorities, governments may still be open to the opportunities presented by the Islamic finance industry, as seen in the case of legislative efforts in Italy (Opromolla, 2012). But what about Islamic finance in secular countries? Secular countries are those that do not recognize any religion. Although religions can thrive and have space without government interference (Chishti, 2004), this paradox raises significant questions about Sharia governance systems in secular nations.

Turkey serves as a case study to provide insight. Turkey is a secular country that adheres to a concept of secularism that limits religious involvement in state affairs (Wing & Varol, 2008). Despite being secular, The RIFD Report 2022 said Turkey ranks as the ninth-largest country in the world regarding Islamic financial assets, with $77 billion (Refinitiv, 2022). Empirical evidence shows that the Islamic finance industry in Turkey makes a tangible contribution to the country's economic growth. This success stems from the widespread acceptance of Islamic finance by the Muslim population, who prefer Islamic financial institutions over conventional ones (Ledhem & Mekidiche, 2022).

Previous studies have explored Sharia governance in Turkey. Fatmawati et al. (2022) categorize Turkey as having flexible Sharia governance, where the state lacks a Sharia governance framework for regulating Islamic banking. Meanwhile, Grassa (2015) notes that Turkey does not have a regulatory framework for Sharia supervision. This situation reflects research findings that overlook developments in Islamic banking in Turkey and highlights a gap in the literature regarding Sharia governance in Turkey. This is because previous research findings ignored information on the formation of the TKBB Advisory Board in 2018, and a circular regarding the committee was announced in 2019. (Bektaş & Yenice, 2022).

The majority of research on Sharia governance has been conducted in the context of countries with strong Islamic financial industries supported by their governments, such as Southeast Asian and GCC countries (Tumewang et al., 2023). Sharia governance in secular countries has not been widely studied. This is crucial as Islamic banks face pressure from administrations, regulators, and governments in executing their activities and functions (Alam & Miah, 2024). The absence of a structured control mechanism or governance framework may undermine public confidence in the legitimacy and validity of Islamic banking products (Karbhari et al., 2020).

Based on these considerations, this study aims to explore the Sharia governance system in Islamic banking in Turkey by using more recent data that has been ignored in previous studies. Additionally, to provide a broader perspective, this study aims to connect Sharia governance in Turkey with similar frameworks in secular countries, particularly France, which adopts comparable principles. Both countries have significant potential for the development of the Islamic finance industry.

This study employs content analysis to explore the regulation and implementation of Shariah governance through Whittington's practice theory, focusing on its three key elements: practices, practitioners, and praxis. A newer framework is used to assess governance: the Exposure Draft on Revised Shariah Governance Framework (ED-RSGF), issued in 2022 by IFSB and AAOIFI. This standard establishes a global benchmark for effective Shariah governance, setting minimum requirements and best practices to enhance quality, public trust, and consistency in Islamic financial institutions (IFIs) worldwide. Besides, this study tries to contribute to the literature by analyzing the historical and secular political contexts shaping Sharia-compliant banking governance. This area has not been extensively explored in previous research.

This study is structured into interconnected sections. The first section presents the background, including recent research on Shariah governance in the selected countries and the limitations of previous studies. The second section reviews relevant literature and theoretical frameworks. The third section outlines the research methodology, detailing data collection and analysis procedures. The subsequent section discusses the research findings and analysis. Finally, the study concludes with key insights, recommendations, and identified limitations, providing direction for future research.

Literature Review

Islamic Finance in Secular Countries

The concept of secularism remains a subject of debate regarding its precise definition. Two dominant definitions exist. The first defines secularism as a form of religious freedom. Under this definition, a secular state allows citizens to choose their beliefs and practice religious worship freely. The second defines secularism as the separation of religion from state affairs. In this sense, a secular state does not have an official religion, remains neutral toward all religions, treats citizens of all faiths equally, separates religious institutions from state affairs, and ensures that state administration is not influenced by religion (Özkul, 2014).

The concept of secularism adopted by Turkey originates from the principles of French secularism, commonly known as *laïcité*. This concept limits the involvement of religion in state affairs, although the state retains the right to regulate religious matters. This idea was championed by Turkey's founding father, Mustafa Kemal Atatürk, who viewed the Ottoman fundamentalists as having damaged the nation's order. After overthrowing the Ottoman regime, Atatürk established the Republic of Turkey based on secularism. This concept successfully built a free and democratic state, protected the country from separatist groups with extreme religious ideologies, and prevented the misuse of religion as a political vehicle (Wing & Varol, 2008).

According to World Population Review 2024, The majority of Turkey's population identifies as Muslim, with a proportion of more than 90%. This demographic provides an advantage for the development of the Islamic finance industry. A study revealed a positive correlation between the percentage of the Muslim population and the growth of the Islamic banking system (Grassa & Gazdar, 2014). Historically, Islamic banking in Turkey has been present since 1983. Secularism did not permit religious terminology, leading to Islamic banking being referred to as "Special Finance Institutions." These institutions were eventually granted equal status to conventional banks through the Banking Law 1999. In 2005, the term "Special Finance Institutions" was replaced with "Participation Banks"(Erol et al., 2014). The Participation Banks Association of Turkey (TKBB) was established in 2006 to strengthen the participation banking system. This era marked the beginning of the acceptance of participation banks. Today, TKBB has reformed the governance of participation banks through concrete steps, such as establishing a central Sharia board in 2018.

The concept of French secularism has a long and complex history. This principle emerged in response to historical conflicts between the state and the Catholic Church in the 18th century, culminating in enacting the Law on Secularism in 1905, which separated the church from the state. Similar to Turkey, secularism in France encompasses the concept of *laïcité*, emphasizing that religion is a private domain that should not interfere with political and governmental affairs (Leruth, 2005).

Nevertheless, France is home to the largest Muslim population in Western Europe, with 5.7 million Muslims (Lasaafin, 2022). The Islamic finance industry in France is still in the development stages. The government has begun to recognize its potential and facilitating various Sharia-compliant transactions such as sukuk and other financial products. However, this progress remains insufficient. Political support, mobilization of Islamic finance experts, and the development of a better regulatory framework by relevant authorities are necessary to advance the industry further (Grassa & Hassan, 2015).

Sharia Governance

Governance emerged following corporate scandals in England (1980s), leading to the Cadbury Committee (1991), which introduced the Code of Best Practice to enhance corporate governance (Boyd, 1996). However, this model fails to address the ethical and religious dimensions crucial to Islamic finance. Islam mandates justice zakat and prohibits gharar and riba, forming a moral filter absent in conventional governance (Rice, 1999; Syibly & Purwanto, 2021).

Unlike conventional governance, which mitigates agency problems, Sharia governance incorporates religion as a core element, with the Sharia board ensuring compliance with Sharia principles (Abu-Tapanjeh, 2009; Grassa, 2013; Shibani & De Fuentes, 2017). This governance framework upholds horizontal accountability to stakeholders and vertical accountability to Allah. A key function of Sharia governance is mitigating Sharia non-compliance risks, which include regulatory sanctions, unlawful income, reputational damage, and financial losses (Sani & Abubakar, 2020).

Two international bodies play important roles in the development of governance for IFIs: the Islamic Financial Services Board (IFSB) based in Malaysia and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) based in Bahrain. The IFSB has issued corporate governance guidelines for IFIs, including IFSB-3, which discusses the Sharia Supervisory Board (SSB) as a distinctive feature of IFIs, and IFSB-10, which provides broader guidelines on Sharia governance. AAOIFI has issued nine governance standards for IFIs, encompassing key components in Sharia governance, namely: (1) provisions for the SSB, (2) the Sharia Review function, (3) Internal Sharia Review, (4) Audit Committee and IFI governance, (5) SSB independence, (6) principles of Sharia governance, (7) disclosure of IFI social responsibility accountability, (8) Central Sharia Board, and (9) Sharia compliance functions (Fatmawati et al., 2022). Recently, in 2022, the two supranational organizations collaborated on harmonizing these standards to enhance the quality of Shariah governance and provide comprehensive guidance on best practices for regulatory and supervisory authorities within Islamic financial institutions. Although no final official document has been published, an exposure draft titled Exposure Draft IFSB-AAOIFI Revised Sharīʿah Governance Framework for Institutions Offering Islamic Financial Services has been released on its websites.

Although both organizations have issued governance guidelines for IFIs, the reality shows that Sharia governance systems vary by jurisdiction, influenced by differing levels of development and governance regimes (AlQassar & Ahmed, 2022). Despite these variations, many studies highlight the effectiveness of Sharia governance systems in improving the performance of Islamic banks. A study found a positive impact of Sharia governance on the sustainability of Islamic banking economics (Jan et al., 2023). In the context of Islamic banking in Indonesia, Kusuma & Ayumardani (2016) found that governance efficiency significantly affects performance. Similarly, Ullah & Khanam (2018) revealed that the Sharia compliance process positively influences financial performance. However, a different finding was reported by Ajili & Bouri (2018), where governance did not significantly impact the performance of Islamic banks in GCC countries. This was attributed to good governance in GCC Islamic banks, which were not oriented toward maximizing shareholder profits.

Most of the studies mentioned above investigate the characteristics of Sharia governance models and their relationship to the financial performance of Islamic banks in countries with a strong Islamic finance industry, often supported by government backing. Therefore, this study aims to examine the structure of Sharia governance in countries where the Islamic finance industry is still in developing due to limited government support, particularly in secular countries. The research will focus on the governance system and its implementation in Islamic banking.

Theoretical Framework

This research is based on agency theory which seeks to understand agency problems between agents and principals that often lead to costs. Corporate governance is a solution to reduce agency costs arising from information asymmetry and conflicts of interest between shareholders (principals) and managers (agents) (Shleifer & Vishny, 1997). Agency problems also occur in Islamic banking because shareholders and managers have differing information and interests. This issue becomes more complex due to the obligation of Islamic banks to comply with Sharia principles. For instance, depositors or customers, as principals, may not know whether the funds they have deposited in Islamic banks are managed under Sharia principles. Customers expect their funds and transactions to align with their religious beliefs. Therefore, Sharia governance is a crucial component of the Islamic banking system.

Furthermore, when discussing Shariah governance in the context of secular states, this study recognizes that the organization of Islamic banking in such countries is likely to be influenced, at least to some extent, by the constitutional dynamics of secularism. This aligns with Institutional Theory, which explains how norms, regulations, and external pressures shape the structure and practices of organizations (Scott, 2005). In the context of Shariah governance, Institutional Theory provides a framework for understanding how Islamic banks develop, adopt, and sustain governance systems that align with Shariah principles while simultaneously adapting to the legal, social, and economic environments of their respective countries to maintain legitimacy (Alam et al., 2021; Alam & Miah, 2024; Karbhari et al., 2020). Thus, this study employs Institutional Theory to analyze how political dynamics within secular constitutions influence the governance of Islamic banking.

Sharia governance varies depending on the characteristics of each jurisdiction. To explore Sharia governance in secular countries, this study adopts the research methodology used by Fatmawati et al. (2022). The research employs the Practice Theory approach proposed by Whittington (2006). This theory consists of three main principles: practice, praxis, and practitioner. Practice refers to something that is recurring, performed collectively, and interconnected. Examples include norms, rules, cultures, traditions, procedures, and various other components used to facilitate interaction among actors (Whittington, 2018). In this context, it refers to frameworks, rules, or regulations related to governance in Islamic banking. Praxis represents the actual activities performed based on the practice. This pertains to the extent to which Islamic banks implement Sharia governance regulations. Practitioner refers to the actors who transform practice into praxis. According to Whittington (2006) The translation of practice into praxis depends on the practitioners' skills. Besides expertise, practitioners' experience is also a contributing factor (Jarzabkowski et al., 2007). Thus, it is necessary to analyze how actors function as practitioners of Sharia governance in secular countries. This research uses the Practice Theory approach to provide a holistic understanding of Sharia governance in secular countries.

Research Methods

This study aims to explore Shariah governance in countries with secular constitutions, with Turkey and France selected as research samples. Islamic banks from each country serve as representatives of the implementation of Shariah governance. Specifically, Albaraka Türk and Kuveyt Türk represent Islamic banking institutions in Turkey, while Union de Banques Arabes et Françaises (UBAF) represents Islamic banking in France. These institutions were selected due to their provision of annual reports in English, ensuring accessibility and transparency in financial disclosures. To analyze Shariah governance regulations and their implementation within Islamic banking, this study adopts Whittington’s practice theory approach. The evaluation framework is based on carefully selected Shariah governance indicators to ensure a structured and comprehensive assessment.

The assessment framework comprises two main components. The first component evaluates Shariah governance practices by comparing national regulatory frameworks with globally recognized governance standards. The assessment focuses on how national regulations align with international best practices. This analysis uses predefined indicators and relies on secondary data sources, including Shariah governance frameworks, banking codes of ethics, regulatory websites, and online news sources. The second component examines the practical implementation of Shariah governance at the institutional level. This analysis is systematically categorized into three key dimensions: governance structure, governance processes, and reporting practices, covering a total of 29 indicators. Data is sourced from annual reports, governance reports, and publicly available information from individual banking websites to evaluate practitioners' perspectives and practical applications (praxis).

A structured content analysis is employed to ensure methodological rigor. Each relevant piece of information is systematically documented based on predefined indicators, with its presence recorded using a checklist and its absence marked with a strikethrough. This approach enables a comparative evaluation of Shariah governance regulations, institutional structures, procedural frameworks, and reporting practices across both countries, facilitating a comprehensive assessment of their effectiveness and alignment with international standards.

According to Krippendorff (2018), the content analysis must ensure both reliability and validity. Reliability in content analysis is achieved when different researchers demonstrate consistency in reading, interpreting, and coding data. Conversely, validity refers to the instrument's ability to measure the intended subject and represent the truth accurately. To ensure reliability, this study involved two independent coders who were provided with worksheets and data to code 36 Shariah governance index items. Any discrepancies in coding were addressed through discussion and re-evaluation. As per Sekaran & Bougie (2016), a reliability threshold of 80% is required for content analysis to be considered reliable. Since this study exceeds that threshold, its reliability is affirmed. Validity is ensured as the measurement instrument has been previously validated in scholarly research (Fatmawati et al., 2022).

Following the analytical process, the study presents a comparative evaluation of Shariah governance in Turkey and France, highlighting key similarities and differences. This analysis provides critical insights into the strengths, weaknesses, and areas for improvement within Shariah governance frameworks and their practical implementation.

Results and Discussion

Sharia Governance: Practices - Regulatory Framework

Practices refer to recurring behaviors or actions carried out simultaneously by a group of interrelated individuals (Whittington, 2018). In the context of Shariah governance, this term refers to the rules, regulations, or guidelines that serve as the framework for governance systems in Islamic banking. These guidelines are issued by authorities or institutions responsible for regulating Shariah governance. International bodies such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) have issued such guidelines, and each jurisdiction has its specific guidance or regulations for its Islamic banking industry.

As mentioned earlier, AAOIFI and IFSB have issued standards on Shariah governance. An exposure draft titled Exposure Draft IFSB-AAOIFI Revised Sharīʻah Governance Framework for Institutions Offering Islamic Financial Services (ED-RSGF) has been released on organizations' websites. This draft is used to refine the Sharia governance index that was previously prepared by Fatmawati et al. (2022) for minimum best practices in this study.

A Shariah governance framework in Islamic banking must ensure that all operations, activities, and the issuance of new products comply with Shariah principles. Consequently, AAOIFI and IFSB recommend the inclusion of unique governance bodies in Shariah governance, which should at least encompass (1) Shariah Supervisory Board (SSB), (2) Shariah Compliance Function (SCF), (3) Shariah Audit Function (SAF), and (4) independent external Shariah audits. These elements highlight the important role of other supporting bodies in aiding the SSB in providing more substantial assurance of Shariah compliance. These bodies are recommended for Islamic banks and all financial institutions offering Shariah-compliant services or products. Furthermore, AAOIFI and IFSB emphasize the critical role of Regulatory and Supervisory Authorities (RSAs) in ensuring the effective implementation of Shariah governance within their respective jurisdictions.

Each jurisdiction implements its own Shariah governance system, influenced by different approaches to adoption. Some regulators see the need for overseeing compliance within Islamic banking, while others view this as a secular domain where government intervention in Shariah compliance oversight is unnecessary (Fatmawati et al., 2022). Table 1 illustrates the regulatory frameworks for Shariah governance in secular countries like Turkey and France. Turkey has developed a Shariah governance system through an independent body. In contrast, France currently lacks any regulation related to Shariah governance.

The Shariah governance system in Turkey has undergone significant evolution. This development can be divided into three periods: the individual initiative period, the institutionalization period, and the full institutionalization period (Bektaş & Yanice, 2022). The beginnings of Shariah governance in Turkey can be traced back to the establishment of Special Finance Houses in 1983. During the individual initiative period, there was no formal Shariah oversight structure at the organizational or institutional level. Bank management relied on fatwas issued directly by Islamic jurisprudence experts for operational and Shariah compliance matters.

The institutionalization period, spanning 2005 to 2018, began when Special Finance Houses were rebranded as Participation Banks under Banking Law No. 5411. Since then, Participation Banks have formed Advisory Committees (AC), which were formally regulated in 2018, mandating establishing Shariah committees in all Participation Banks. The full institutionalization period began in the same year, with the establishment of the Central Advisory Board (CAB) by the Banking Regulation and Supervision Agency (BRSA).

Turkey's Shariah governance system is not regulated by the central bank but by an independent professional body, the Participation Banks Association of Turkey (TKBB). Sharia governance regulations are outlined in two circulars issued by TKBB. Circular 1, released in 2019, specifies the structure and obligations of participating banks in adhering to interest-free banking principles. It mandates the formation of Advisory Committees (AC) and a dedicated compliance unit, along with supervisory functions performed by internal auditors. This mirrors the internal Shariah audit function recommended by AAOIFI and IFSB. The circular also outlines the responsibilities of the Board of Directors in ensuring compliance with interest-free banking principles, highlighting the board's strategic role in governance. It is important to remember that studies have shown that managerial factors such as board and SSB involvement can influence the performance of Islamic banks (Ghayad, 2008). Circular 2, issued in 2018, address the formation, responsibilities, and operational procedures of the Central Advisory Board (CAB). Key elements of Shariah governance for Participation Banks in Turkey include the CAB, AC, compliance units, and supervisory functions.

Table 1

Comparison of Sharia Governance Regulations

Country/Regulator	IFSB-AAOIFI	Turkey	France
IFSB Membership		IFSB Full Members	-
Reference (years)	(Exposure Draft) IFSB-AAOIFI Revised Shariah Governance Framework for Institutions Offering Islamic Financial Services (31 March 2022)	Communique on Compliance with The Principles and Standards of Interest-Free Banking (2019 revised 2021)	-
Central Shariah Council	Central Sharia Board	Central Advisory Board (AB)	-
Sharia Supervisory Board (internal)	Sharia Supervisory Board (SSB)	Advisory Committee (AC)	-
Relationship between the Central Sharia Council and SSB	-	-	-
SSB Terms and Conditions	• Minimum three members • Meet at least 4 times a year • Not allowed to work in the same LKS for 9 years	• Minimum three members • Meet at least twice a month • AC members can only be part of the AC on a maximum of 2 participating banks	-
Important elements in sharia governance	a. Shariah Supervisory Board b. Shariah Compliance Function c. Internal Shariah Audit Function d. Independent External Sharia Audit	a. Central Advisory Board b. Advisory Committee c. Compliance Function d. Supervision Unit	-

Source: Adapted from Fatmawati et al. (2022)

In contrast, France lacks a specific regulatory framework governing the Islamic finance industry. Consequently, no specific Shariah governance regulations exist. This is due to France's secular legal system and non-discrimination principles, meaning there is no obligation for Islamic banks to establish institutional Shariah boards. Islamic banking or financial services in France are governed under general law. Islamic banking falls under banking law, insurance codes regulate takaful services, and Islamic capital markets adhere to monetary and financial codes as well as general regulations issued by the Financial Markets Authority (Santelli & Wylde, 2019).

Therefore, Turkey's Shariah governance regulations can be classified as centralized governance. Hamza (2013) argued that centralized Shariah governance enhances the effectiveness and credibility of Islamic banks. These findings also refine previous research that characterized Shariah governance in Turkey to be a grey area (Fatmawati et al., 2022) lacking Shariah supervisory regulations (Grassa, 2015). TKBB, as the governing body for participation banks, has issued two official circulars that regulate the governance of interest-free banking, providing greater clarity and structure.

The situation in France is markedly different. As observed, France's Islamic banking or financial services do not have institutional Shariah boards. However, some banks utilize Shariah consultancy services independent institutions provide to ensure compliance with Shariah principles. For example, UBAF, an Islamic bank in France, uses services from The Shariyah Review Bureau (SRB), a Middle Eastern-based firm offering professional Shariah consultancy and audit services for public or private businesses. This demonstrates that Shariah governance practices or regulations in France are still at the individual initiative stage, requiring significant further development.

A review of Shariah governance systems across these regulators indicates that Shariah governance practices (regulations) in Turkey and France still have room for development. In Turkey, compliance functions are not explicitly required to establish dedicated units, as existing compliance units within Participation Banks can carry this out. Additionally, there is no independent external Shariah audit body as recommended by AAOIFI and IFSB. Independent external Shariah audits serve as independent external institutions to strengthen adherence to Shariah principles, enhancing the efficiency of Islamic banks. Ben Zeineb & Mensi (2018) found that implementing governance structures with stringent frameworks correlates with higher efficiency levels.

Furthermore, regulations in Turkey do not explicitly use the term "Shariah" but instead refer to "interest-free banking principles." This is likely due to Turkey's secular constitution, which prohibits using religious terminology in public institutions. Although not as advanced as the frameworks recommended by AAOIFI and IFSB, TKBB continues to strengthen Participation Banks, as evidenced by its collaborations with international institutions such as AAOIFI (AAOIFI, 2022).

Sharia Governance: Practitioners and Praxis

Practitioners are the actors responsible for translating practice into praxis, while praxis refers to the actual activities derived from practice (Jarzabkowski et al., 2007). This section analyzes the governance structure, processes, and reporting representing Shariah governance practitioners and praxis. To facilitate the analysis, a tabular modeling approach is adopted based on the model from Fatmawati et al. (2022). Moreover, it adjusted to align with the latest regulations outlined in the Exposure Draft of the IFSB–AAOIFI Revised Sharīʻah Governance Framework (ED-RSGF), released in 2022.

Sharia Governance: Practitioners - Sharia Governance Structure

The AAOIFI and IFSB, in the ED-RSGF guidelines, emphasize that the Shariah governance framework must include provisions to incorporate effective and independent oversight of compliance with Shariah principles. This encompasses both the structure and processes within Shariah governance. To examine the Shariah governance structure, this section analyzes practitioners or actors in the Shariah governance system along with their attributes, as obtained from annual reports and official websites of Islamic banks. Several banks are used as samples to represent the Shariah governance structure in their respective countries. Al Baraka Turk and Kuveyt Turk banks are selected as samples to represent the situation in Turkey. Meanwhile, UBAF serves as a sample of Shariah governance structures in France.

Panel A of Table 2 presents the disclosure of Shariah Supervisory Board (SSB) attributes, expertise, and backgrounds. Al Baraka Turk and Kuveyt Turk disclose on their websites that each has three Advisory Committee (AC) members with educational backgrounds limited to Islamic law, *fiqh muamalah*, and *usul fiqh*. This complies with Circular 1, which requires at least two-thirds of members to have a bachelor's degree in theology or a master's degree in interest-free finance. However, Ghayad (2008) suggests SSB members with qualifications in finance and economics. Other findings indicate that SSB members with financial/accounting qualifications significantly impact performance (Grassa & Matoussi, 2014). Information regarding the facilities/remuneration received by the AC and the AC charter is not found in any medium. This may be due to the absence of an obligation for Participation Banks (PBs) to disclose such information publicly. Regarding other elements supporting the SSB, Circular 1 mandates PBs to establish compliance units and oversight functions.

Differences are observed between Al Baraka Turk and Kuveyt Turk in this regard. Neither provides information on Shariah risk management functions and Shariah audit/review reporting to the AC. However, concerning internal Shariah audit reporting to the audit committee, Kuveyt Turk clearly states that one of the internal control department's functions is ensuring compliance with Participation Banking principles, which must report to the audit committee. Such information is not found for Al Baraka Turk. Both banks do not disclose information about an independent external audit function.

UBAF, on the other hand, does not provide any information related to Shariah governance structures. This is due to the absence of specific regulations requiring Islamic banks to establish Shariah governance structures. These findings further underscore government support's importance in regulating the Shariah governance system for Islamic banking.

It is concluded that the level of practitioners in Shariah governance correlates with the governing regulations. More comprehensive regulations for Islamic banking in secular countries such as Turkey and France are essential to enhance the quality of practitioners of Shariah governance in Islamic banking.

Sharia Governance: Praxis - Sharia Governance Processes

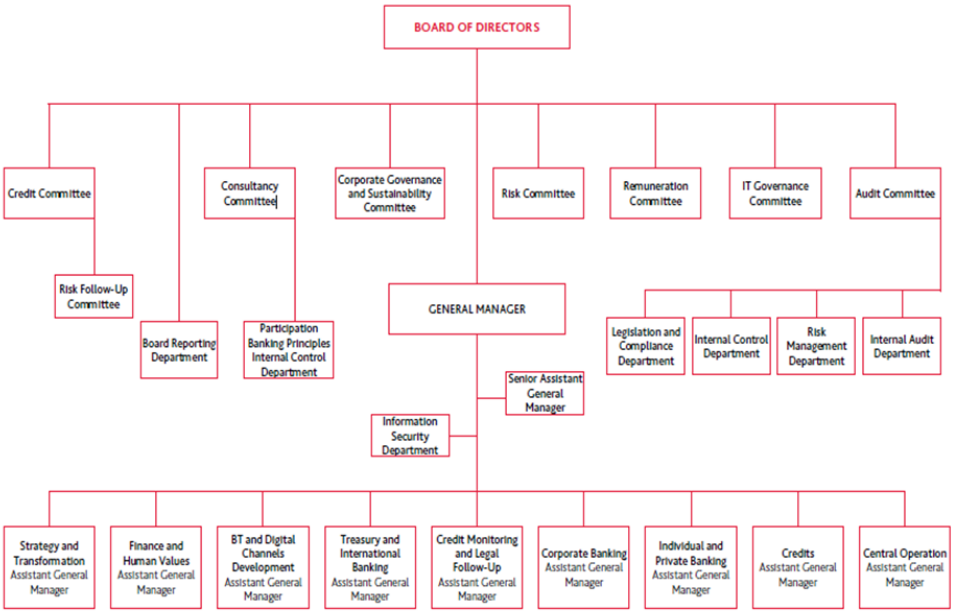
Based on the Shariah governance guidelines in IFSB-10, four processes in the Shariah governance system are identified: (i) the issuance of relevant Shariah pronouncements; (ii) the dissemination of information regarding these pronouncements; (iii) internal Shariah compliance reviews; and (iv) internal Shariah compliance audits. IFSB-10 also recommends activities to be carried out by entities involved in the Shariah governance system, such as holding regular meetings, engaging in continuous education, and providing or assisting in Shariah training for staff. This section explains the processes and activities of Shariah governance in several countries. The information is sourced from the 2022 annual reports and official websites of the institutions.

Panel B of Table 2 presents the Shariah governance processes in several countries. In the context of ex-ante and ex-post activities in Turkey, neither bank provides details on Shariah resolutions issued by the AC. Only Kuveyt Turk explains the internal Shariah audit activities conducted by the internal control department, indicating that internal Shariah audit functions are not carried out by a separate unit. Al Baraka Turk, on the other hand, does not disclose any information regarding ex-ante and ex-post activities in Shariah governance. Concerning regular meetings, Kuveyt Turk's AC held 24 meetings in 2022, while Al Baraka Turk reported holding 25 meetings in 2022. Both banks do not provide information about meetings with the board of directors. Additionally, no information is disclosed regarding Shariah training programs for AC members and the board of directors.

As for UBAF, no disclosures are made regarding the items mentioned in Panel B of Table 2. Consequently, no information on Shariah governance processes at UBAF is available, which is also tied to the absence of regulations governing and overseeing Islamic banking in France.

Figure 1

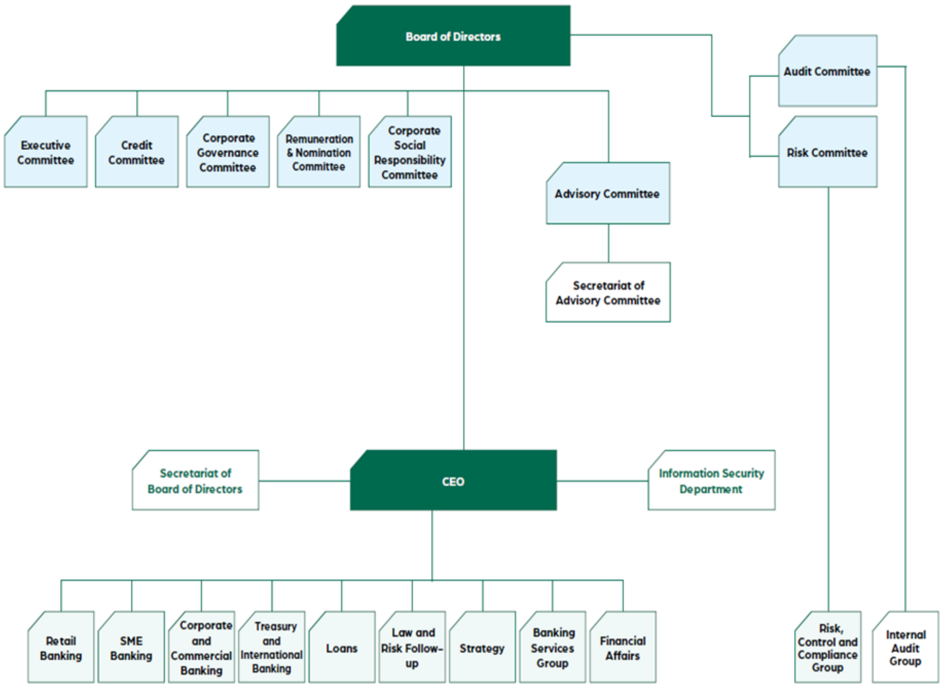
Albaaraka Turk Governence Structure



Source: Albaraka Integrated Annual Report 2022

Figure 2

Kuveyt Turk Governance Structure



Source: Kuveyt Turk Annual Report 2022

This demonstrates that the praxis of activities and Shariah governance processes in secular countries remains minimal. In the context of Turkey, this is due to limited and less comprehensive regulations from the regulator. The TKBB should review and revise its circulars and develop them into a complete and comprehensive Shariah governance framework as suggested by IFSB and AAOIFI. In France, given the absence of a regulator overseeing Islamic banking, the praxis performed by Islamic banks in France is solely based on the initiatives of individual institutions.

Sharia Governance: Praxis - Sharia Governance Reporting

The ED-RSGF requires the Shariah Supervisory Board (SSB) to issue an annual SSB report to the board of directors, which is then published as part of the Islamic bank's annual report. This serves as a form of corporate transparency regarding compliance with Shariah principles. The SSB report must include several items, such as a clear title, address, an opening paragraph indicating the fulfillment of the SSB's obligations, the SSB's opinion on the bank's compliance with Shariah principles, a paragraph outlining the SSB's duties and authority, a statement of responsibility by management and the board of directors for Shariah compliance, reporting of Shariah violations, the date of the SSB report's issuance, and the signatures of all SSB members.

Panel C of Table 2 summarizes the items disclosed in SSB reports from various countries. The SSB reports of Albaraka Turk and Kuveyt Turk. Although both attach their Advisory Committee (AC) reports in their annual reports, the components or items disclosed are very limited. The AC report of Kuveyt Turk is a single page titled "Assessment of the Advisory Committee on the Bank with Principles and Standards of Interest-Free Banking." The content consists of only two paragraphs. The first paragraph briefly explains that the AC has performed its duties in issuing fatwas and decisions to ensure the bank complies with participation banking principles and the management's responsibility for the bank's compliance with these principles. The second paragraph states the AC's opinion on the bank and notes the limitation on non-segregated income. This report does not disclose Shariah principles violations and lacks an address, report date, and signatures of AC members. Similarly, Albaraka Turk's AC report is a single page in its annual report titled "Advisory Board Report." The content broadly outlines the AC's performance obligations and its opinion on the compliance of the bank with interest-free banking principles and standards, indirectly mentioning the management's responsibility for adherence to these principles.

UBAF does not disclose any SSB report in its annual report. Although UBAF provides a statement on Shariah compliance through assessments conducted by its Shariah Review Bureau (SRB), it should at least attach the SRB's assessment document in its annual report. This is important as a form of transparency and evidence for stakeholders, especially customers seeking assurance of Shariah compliance.

Aribi et al. (2019) suggest that stakeholder expectations for SSB reports include five items: (1) a standardized format including the report title, report date, contact details, and SSB signatures, (2) the background of SSB members, (3) the SSB's supervisory process over principles, (4) disclosure of non-compliant transactions, and (5) zakat disclosure. Based on this index, Kuveyt Turk and Albaraka Turk disclose them to a limited extent. It should be noted that Circular 1 previously provided guidelines on public disclosure in Article 13, but this article was revoked in 2021. This revocation highlights a gap in fulfilling AC reporting requirements in Turkey, necessitating attention from stakeholders, particularly the TKBB, to re-regulate and establish a standardized format for AC report disclosures. Meanwhile, UBAF, although unregulated, should disclose SRB reports in its annual report.

Table 2

Disclosure of Sharia Governance Structure, Processes, and Reporting

No.	Country	Source	Turkey		France
	Sharia Bank		Albaaraka	Kuveyt	UBAF
Panel A: Governance Structure					
SSB Attributes					
1	At least 3 members	ED-RSGF	√	√	-
2	SSB members with diverse backgrounds	ED-RSGF	-	-	-
3	SSB Charter is publicly available	ED-RSGF	-	-	-
4	SSB facilities and remuneration disclosed	ED-RSGF	-	-	-
SSB Background					
5	SSB membership disclosed	Amalina Wan Abdullah et al., (2013)	√	√	-
6	SSB educational background revealed	Amalina Wan Abdullah et al., (2013)	√	√	-
7	SSB experience revealed	Amalina Wan Abdullah et al., (2013)	√	√	-
Main elements of sharia governance					
8	Dedicated Sharia compliance/risk management departments/units	ED-RSGF	-	-	-
9	Reporting of internal Sharia reviews/audits specifically for SSB	ED-RSGF	-	-	-

No.	Country / Sharia Bank	Source	Turkey – Albaaraka	Turkey – Kuveyt	France – UBAF
10	Reporting of Internal Sharia audits to the audit committee (separately or within the internal audit department)	ED-RSGF	-	√	-
11	Independent external sharia audit	ED-RSGF	-	-	-
Panel B: Sharia governance process					
Ex-ante and ex-post activities					
12	Issuance of relevant Shariah statements/resolutions	IFSB-10	-	-	-
13	Dissemination of information on Sharia resolution statements	IFSB-10	-	-	-
14	Internal Sharia compliance review	IFSB-10	-	-	-
15	Internal Sharia compliance audit	IFSB-10	-	√	-
Other Activities					
16	SSB meetings are held at least four times a year	ED-RSGF	√	√	-
17	SSB meets with the Board of Directors at least once a year	ED-RSGF	-	-	-
18	Sharia governance organs participate in sustainable professional development programs/trainings	ED-RSGF	-	-	-
19	Sharia governance organs conduct/assist Sharia Training for staff, Directors, and management	ED-RSGF	-	-	-
Panel C: Sharia governance reporting					
20	Annual Shariah compliance report by SSB in the IB annual report	ED-RSGF	√	√	-
21	Title of SSB report	ED-RSGF	√	√	-
22	SSB report address	ED-RSGF	-	-	-
23	Opening/introductory paragraph (clear engagement objectives)	ED-RSGF	-	√	-
24	Sharia opinions include matters on:				
	a. Main Opinion	ED-RSGF	√	√	-
	b. Exception	ED-RSGF	-	-	-
	c. Limitations	ED-RSGF	-	-	-
	d. Additional Opinions	ED-RSGF	√	√	-

No.	Country / Sharia Bank	Source	Turkey: Albaaraka	Turkey: Kuveyt	France: UBAF
25	A scope paragraph describing the nature of the work performed	ED-RSGF	√	√	-
26	A clear statement that IFI's management is responsible for proper compliance with Sharia rules and principles	ED-RSGF	√	√	-
27	Sharia violation reports	ED-RSGF	-	-	-
28	All SSB members sign the SSB report	ED-RSGF	-	-	-
29	Report date	ED-RSGF	-	-	-

Source: Adapted from Fatmawati et al. (2022)

Historical and Political Factors

Customers' decisions to use Islamic banking services in Turkey are influenced by their trust in Sharia management and the perception that the Islamic financial system is legitimate and compliant with Sharia principles (Pala et al., 2024). This aligns with the need for improved Sharia governance in Islamic banking in Turkey. However, Turkey remains inclined toward secular principles, which has hindered the development of regulations and support for Islamic banking (Yanīkkaya & Pabuçcu, 2017). Under the long-established secular system, Islamic financial institutions have often operated with uncertainty and caution (Asutay, 2012).

Nevertheless, the historical trajectory of Islamic banking in Turkey demonstrates sustained growth, particularly due to the government's increasing commitment to accommodating Sharia-compliant banking regulations. As previously outlined, the advancement of Islamic banking in Turkey began with its rebranding as participation banks in 2005, culminating in the establishment the Participation Banking Regulation in 2018 by TKBB. This progress is largely attributed to the political dominance of the Justice and Development Party (AKP) since 2002, a party with an Islamist orientation that has governed Turkey for over two decades (Asutay, 2013).

Political changes in Turkey are not merely a shift from secularism to Islamism but reflect a complex interplay between Islam, secularism, and democracy (Göl, 2009). Under the leadership of Recep Tayyip Erdoğan, the AKP has successfully merged Islam and nationalism without directly contradicting the secular foundations of the state (Tobing & Nurwijoyo, 2021). Erdoğan's policies have incorporated Islamic values through strategic initiatives, such as reforming the education system to emphasize Islamic teachings and reintroducing Islamic symbols into public spaces by constructing mosques and converting secular buildings into Mosques. This trend is likely to strengthen further following the 2023 election results (Gumuscu, 2024).

Given these political dynamics, this study finds that Islamic banking in Turkey is becoming increasingly accepted. Political shifts have enhanced Sharia governance regulations, which have evolved from relatively flexible to more structured and stringent, as explored in the previous section.

This development has positioned Islamic banking as one of the most efficient sectors in Turkey's economy, characterized by rapid growth and comprehensive transformation (Yüksel & Canöz, 2017) as evidenced by the gradual increase in total assets over the years. Ambitiously, the Turkish government aims to expand the share of participation banking assets to 15% of the overall banking sector by 2025 (İslam et al., 2022).

As previously discussed, although Islamic banking in Turkey has experienced significant growth, there remains room for improvement in Shariah governance. The Shariah governance regulations formulated by AAOIFI and IFSB could serve as valuable frameworks for potential adoption, enhancing the overall regulatory structure.

On the other hand, France's political dynamics present a different scenario. Despite sharing the same constitutional principles, the French government tends to adopt a more cautious approach to accommodating Islamic finance. The development of Islamic finance in France has been complex, despite the country having the largest Muslim population in Europe. The discussion on Islamic finance gained traction in the 2000s, with increasing recognition of its potential within the French financial sector (Kurochkina & Us, 2019).

In 2007, the French government began providing strong political support for the sector's growth. Then-Minister of Economy, Christine Lagarde, emphasized the importance of attracting Gulf investors and opening the market to Islamic finance as a key priority (Grassa & Hassan, 2015; Hassan et al., 2024). However, despite these initiatives, Islamic finance in France has not developed as expected, primarily due to the lack of a clear legal framework to regulate Shariah-compliant financial operations (Hajjar, 2019).

A major challenge to Islamic finance in France is the country's strict secular constitution. France upholds a rigid separation between religion and the state, often hindering the introduction of Islamic financial products. In 2009, the French Constitutional Court ruled that certain proposed legislative reforms to support Islamic finance were inconsistent with the secular principles of the French Republic, thereby obstructing progress in the sector (Grassa & Hassan, 2015). Although there have been some achievements, such as the introduction of Shariah-compliant savings schemes in

2011, France remains significantly behind other European nations like the United Kingdom in Islamic finance development (Grassa & Hassan, 2015; Hajjar, 2019).

Shariah governance in France remains in its early stages of development. While efforts are being made to establish a supportive regulatory framework, legal and symbolic challenges persist. Country's strict secular framework limits government support for religion-related financial initiatives. Legal and constitutional constraints, reinforced by Constitutional Court rulings, have slowed its development, causing France to lag behind other European nations in the availability and expansion of Shariah-compliant financial products (Hassan et al., 2024) However, academic research and discourse on Islamic finance continue to expand, with seminars and publications by academic institutions contributing to ongoing discussions (Bouslama, 2009; Grassa & Hassan, 2015).

Thus, as previously discussed, the findings reveal the absence of a formalized Shariah governance system in France. This outcome aligns with the country's existing political dynamics, where strict secular principles hinder the institutionalization of Islamic finance, making it challenging for the industry to develop and expand.

This study successfully identifies the political dynamics and government policies as key factors influencing the development of the Islamic finance industry in secular countries, particularly Turkey and France. This finding aligns with Grassa et al, (2018), who observed a significant positive relationship between Islamic political strength and the proportion of Islamists in national parliaments with the growth of Islamic finance industries. Moreover, these findings further confirm Institutional Theory, highlighting the role of political power and regulatory frameworks in shaping the norms adopted by institutions, including Islamic banks. In maintaining legitimacy, Islamic banks strive to establish Shariah governance structures, even when influenced by policies shaped by political will. Their governance frameworks are continuously adapted to align with the prevailing regulatory and political landscapes in secular states.

Ultimately, in response to the central question of this study—does Shariah governance exist in secular countries? The answer is contingent upon the political environment. Shariah governance can exist if a secular government provides the necessary space and demonstrates political willingness to accommodate it, as observed in Turkey. Conversely, in the absence of such political will, the presence of Shariah governance becomes significantly constrained, as exemplified by the case of France.

Conclusion

Sharia governance is a crucial component in ensuring the sustainability of Islamic banks. This study aims to investigate the implementation of Sharia governance within Islamic banks located in secular countries like Turkey and France. The research adopts the practice theory approach developed by Whittington (2006), which emphasizes three key principles: practice, praxis, and practitioners. A content analysis of Sharia governance regulations, annual reports from Islamic banks, and relevant online news sources was conducted. This method allowed for a comprehensive understanding of Sharia governance in Turkey and France.

The findings indicate differences in Sharia governance between Turkey and France. There has been no significant development in Sharia banking governance in France due to the absence of a regulator overseeing the Islamic financial industry. This is because of the influence of the French constitution, which prohibits religious intervention in public institutions. As a result, Islamic banking in France operates under general banking law. Therefore, the practice (regulation) of Sharia governance in the French context is nonexistent. Nevertheless, Islamic banks continue to rely on individual initiatives for their operations and compliance. To ensure adherence to Sharia principles, these banks engage independent external firms that offer Sharia services.

In contrast, Turkey's financial industry has advanced further. Although the term participation banks are still used, the Sharia governance system has been regulated and institutionalized. The practice of Sharia governance is found in the circulars issued by the TKBB, which is the primary regulator for participating banks. Sharia governance is centralized, with the advisory board acting as the central Shariah board and the advisory committee serving as the Shariah board at the institutional level. There are also other supporting functions, such as the supervisory unit in the internal audit department and compliance functions. However, in terms of practitioners and praxis, the governance structure in Turkey remains weak. The lack of a comprehensive governance regulation indicates this. Therefore, the TKBB, as the main regulator, should design a comprehensive framework, accompanied by a standardized reporting format, to improve the quality of participation in banking governance.

In conclusion, the development of Shariah governance in secular countries is significantly shaped by political will and regulatory frameworks, as demonstrated by the cases of Turkey and France. In Turkey, the Islamic banking sector flourishes due to strong government support, while France's more cautious approach restricts its growth. This contrast underscores Institutional Theory, highlighting the critical role of political dynamics in influencing both the presence and effectiveness of Shariah governance within secular states.

These studies contribute to the existing literature on Sharia governance in secular countries and also provide insights for Islamic banks, regulators, and policymakers to consider policies that support strengthening Islamic banking governance to enhance Shariah compliance, market credibility, and institutional sustainability in various political and legal environments. However, this study has several limitations. First, the results cannot be generalized as only Turkey and France were used as samples, each with varying interpretations of secularism. Second, the analysis of practitioners and praxis is based solely on information from websites and banks' annual reports, which may not directly reflect the actual behavior or situation. Future research can be expanded to a broader context of secular countries, such as India, the United Kingdom, and the United States, to explore further the dynamics of Shariah governance in diverse regulatory and political environments.

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