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Sharia Governance and its Impact on Financial Innovation in Islamic Banks: A case study of Al Salam Bank

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Abstract:

This study examines the effect of Sharia governance and its dimensions on financial innovation, evidence from Al Salam Bank – Algeria. Data were collected from 30 managerial and supervisory employees using a quantitative method based on a structured questionnaire and analyzed with STATA 17. Sharia governance was assessed across seven dimensions, while financial innovation served as the dependent variable.

Results indicate that the main hypothesis is partially supported. While the overall hypothesis of Sharia governance impact on financial innovation cannot be fully accepted, the study reveals that: Three dimensions (Commitment and Sharia Supervision, Independence of Sharia Supervision, and Sharia Review and Audit) significantly and positively influence financial innovation, while four dimensions (Justice and Accountability, Transparency and Disclosure, Top Management, and Communication and Coordination) show no statistically significant.

Keywords: Governance, Sharia Governance, Financial Innovation, Islamic Banking.
JEL Classification Codes : (G34, G38, O31, P34).

ملخص:

تتناول هذه الدراسة أثر الحوكمة الشرعية وأبعادها على الابتكار المالي، من خلال دراسة تطبيقية على بنك السلام – الجزائر. وقد تم جمع البيانات من 30 موظفًا من الكوادر الإدارية والرقابية باستخدام المنهج الكمي المعتمد على استبيان منظم، ثم تحليلها باستخدام برنامج STATA 17. أين تم تقييم الحوكمة الشرعية عبر سبعة أبعاد رئيسية، في حين اعتُبر الابتكار المالي المتغير التابع في الدراسة.

أظهرت النتائج أن الفرضية الرئيسة لم تتحقق بالكامل، أي أن الحوكمة الشرعية لا تُحدث تأثيرًا شاملاً ومباشرًا على الابتكار المالي. ومع ذلك، بيّنت الدراسة أن ثلاثة أبعاد (الالتزام والرقابة الشرعية، استقلالية الرقابة الشرعية، والمراجعة والتدقيق الشرعي) تؤثر إيجابًا وبشكل معنوي على الابتكار المالي، بينما الأبعاد الأربعة الأخرى (العدالة والمساءلة، الشفافية والإفصاح، الإدارة العليا، والتواصل والتنسيق) لم تُظهر تأثيرًا إحصائيًا ملموسًا.

الكلمات المفتاحية: الحوكمة، الحوكمة الشرعية، الابتكار المالي، الصيرفة الإسلامية.

تصنيف JEL: (G34,G38, O31, P34).

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1. Introduction:

The islamic finance industry has witnessed remarkable growth over recent decades, with global assets exceeding 3.5 trillion USD. This expansion has positioned it as a credible alternative to the conventional financial system, offering ethical and Sharia compliant financial solutions. However, islamic financial institutions face several challenges, among which are those dual related to: ensuring full Sharia compliance while fostering financial innovation to meet evolving market demands.

In this regard, Sharia governance plays a vital role not merely as a regulatory constraint, but as an enabler that directs innovation within the legal and ethical boundaries of islamic law. Strong Sharia governance enhances trust, reduces compliance risks, and promotes innovation aligned with the objectives of Sharia.

In the Algerian context, the islamic banking industry witnessed its official launch with the issuance of regulation N°: 20.02 on Islamic banking in 15 march 2020, which opened the door to the development of various islamic financial products. However, the experience remains in its early stages, leaving Algerian islamic banks facing several challenges in balancing Sharia compliance with financial innovation.

Problematic:

To what extent does Sharia governance affect financial innovation in Al Salam Bank-Algeria?

Hypotheses: The study proposes a set of hypotheses to examine the relationship between Sharia governance and financial innovation at Al Salam Bank-Algeria. These hypotheses aim to explore how sharia governance dimensions influence innovative practices in islamic banking.

Main Hypothesis

H_0: There is no statistically significant effect of Sharia governance on financial innovation at Al Salam Bank.

H_1: There is a statistically significant effect of sharia governance on financial innovation at Al Salam Bank**.**

Sub Hypotheses:

Justice and Accountability (X1):

H_0: justice and accountability have no effect on financial innovation.

H_1: justice and accountability have an effect on financial innovation.

Sharia Compliance and Sharia Supervision (X2):

H_0: Sharia Compliance and Sharia supervision have no effect on financial innovation.

H_1: Sharia Compliance and Sharia supervision have an effect on financial innovation.

Transparency and Disclosure (X3):

H_0: Transparency and disclosure have no effect on financial innovation.

H_1: Transparency and disclosure have an effect on financial innovation.

Independence of the Sharia Supervisory Board (X4):

H_0: Independence of Sharia Supervisory Board has no effect on financial innovation.

H_1: Independence of Sharia Supervisory Board has an effect on financial innovation.

Top Management (X5):

H_0: Top management has no effect on financial innovation.

H_1: Top management has an effect on financial innovation.

Communication and Coordination (X6):

H_0: Communication and coordination have no effect on financial innovation.

H_1: Communication and coordination have an effect on financial innovation.

Sharia Review and Audit (X7):

H_0: Sharia review and audit have no effect on financial innovation.

H_1: Sharia review and audit have an effect on financial innovation.

Study Objective:

This study examines the relationship between seven dimensions of Sharia governance and financial innovation in Islamic banking, using Al Salam Bank -Algeria as a case study.

2. Theoretical Framework:

This part of study represents the theoretical foundation, which explores the relationship between sharia governance by its dimensions and financial innovation

2.1. theoretical foundations of sharia governance:

2.1.1. Definition of sharia governance

Sharia governance refers to the framework through which islamic financial institutions (IFIs) ensure that their activities, operations, and products comply with the principles of islamic law (Sharia). According to the Accounting and Auditing Organization for islamic financial institutions, sharia governance is a set of institutional and organizational arrangements through which IFIs ensure effective independent oversight of sharia compliance across all activities. (AAOIFI, 2020, p. 23)

Similarly, the islamic financial services board defines sharia governance as a set of institutional and organizational arrangements through which IFIs ensure that there is an effective independent oversight of sharia compliance. (IFSB, 2009)

From an academic perspective, sharia governance can be described as the system that defines the structures, processes, and relationships used to ensure that IFIs operate in accordance with sharia principles and fulfill the objectives of islamic finance. (Rahman, 2013, p. 66)

It can be defined also as the mechanisms and processes through which IFIs manage their compliance with sharia rules and principles as interpreted by their sharia boards. (Grassa, 2015, p. 4)

In essence, sharia governance encompasses several key dimensions justice and accountability, commitment and Sharia supervision, transparency and disclosure, independence of the Sharia supervisory board, top management involvement, institutional communication, and sharia review and audit, which together can provide the foundation for ensuring integrity, trust, and innovation in islamic banking.

We conclude that sharia governance represents an integrate framework that insures islamic financial institutions' adherence to the principles and objectives of sharia through effective, independent, and transparent supervision, thereby enhancing compliance, accountability, and stakeholder confidence.

However, there are key regulatory institutions and standards setting bodies that provide guidelines for islamic industry practices, and establish the foundational principles of sharia governance, (Rania, 2019, p. 7) such as:

- **The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)**: Establishes accounting, auditing, and governance standards for IFIs.

- **The Islamic Financial Services Board (IFSB):** Develops regulatory and supervisory frameworks to ensure stability and resilience in Islamic finance.

Dimension	Explanation	importance / Function
Justice and Accountability	Ensures equitable treatment of stakeholders through clear accountability frameworks and fair distribution of rights, responsibilities, and sharia compliance oversight.	Justice is a fundamental Islamic principle that ensures protection of all parties' interests while maintaining ethical standards in financial transactions.
Sharia Compliance and Supervision	Focuses on adherence to islamic principles in all banking operations. Includes: implementation of fatwas in banking practices; supervision of contracts and transactions; ensuring operations align with Maqassid AL Sharia…	Guarantees that all financial activities conform to islamic jurisprudence principles.
Transparency and Disclosure	Involves the clear and timely communication of financial and nonfinancial information to stakeholders, enhancing trust and reducing information asymmetry.	Builds trust and credibility with customers and investors while meeting regulatory requirements.
Independence of Sharia Supervisory Board	Ensures that the sharia supervisory board operates independently, free from external pressures or managerial influence. This includes maintaining financial autonomy, exercising full decision making authority, avoiding conflicts of interest, and utilizing direct reporting channels…	Critical for maintaining objective sharia supervision and preventing conflicts that could threaten compliance integrity.
Top Management involvement	Emphasizes senior management's role in implementing sharia governance policies and cultivating a culture of compliance and innovation.	Essential for integrating sharia compliance into organizational culture, serving as the catalyst that transforms policies into practice and ensures sustainable compliance.
Communication and Coordination	Ensures effective coordination among governance bodies, including Sharia board management alignment, interdepartmental communication, stakeholder engagement, and internal consultation processes.	Facilitates smooth operations and ensures all parties work cohesively toward sharia compliant innovation.
Sharia Audit and Review	Involves systematic examination of sharia compliance, including internal audits, external reviews, periodic assessments, documentation of findings, corrective actions, and post implementation product reviews.	Ensures sharia compliance across all operations and highlights areas for improvement.

• **The Sharia Advisory Councils:** Found in countries such as Malaysia and Indonesia, these councils oversee the Sharia compliance of financial products and operations.

• **National Regulatory Authorities:** Many countries with Islamic finance sectors have their own regulatory bodies that oversee compliance within their specific legal framework.

By setting clear governance standards and promoting effective sharia oversight, these institutions not only safeguard the integrity of islamic finance but also create an enabling environment for financial innovation, allowing institutions to design new sharia compliant products while maintaining adherence to islamic ethical and legal principles.

Building on the regulatory foundations established by these institutions, the effectiveness of sharia governance within islamic financial institutions depends largely on the implementation of its key dimensions.

2.1.2. Core Dimensions of sharia governance framework

The dimensions of sharia governance reflect the practical mechanisms through which sharia compliance is maintained and ethical integrity is ensured. They include justice and accountability, commitment and sharia supervision, transparency and disclosure, independence of the sharia supervisory board, top management involvement, communication and coordination, and sharia review and audit. Each of which plays a distinct role in enhancing institutional performance and fostering financial innovation within a sharia compliant framework. The following table summarizes the core dimensions of sharia governance in islamic financial institutions, along with their conceptual definitions.

Table (01): The seven dimensions of sharia governance framework

Source: Prepared by the researcher based on (IFSB, 2018, P 35-44) and others.

2.2. The concept and strategies of financial innovation from an Islamic perspective:

Innovation in financial institutions has become imperative, particularly following the impact of developments in networking and communications technologies, as well as the continuous evolution of customer needs. These dynamics compel innovators to develop products that keep pace with contemporary developments and meet the growing demands of clients.

2.2.1. Definition of banking financial innovation:

The simplest definition of innovation is the application of developed ideas or methods that address current or emerging market needs. When banks innovate, they modify the products or services they offer in response to changing market and customer requirements. Successfully implementing such changes ahead of competitors enables institutions to attract new customers while retaining existing ones. Innovation does not necessarily entail being first to accomplish something; rather, it means executing differently and more effectively than others, while ensuring that the product or service introduced to the market fulfills customer needs. (Brich & Kheldoun, 2016, p. 35)

From an islamic perspective, financial innovation is defined as a set of procedures and measures that fulfill the financial needs of society, whether through rehabilitating existing products, developing them, or designing alternative innovative products that are feasible and implementable within the rules and controls of islamic sharia. (Daoud, 2022, p. 272)

Others view financial innovation as encompassing all novel products and services, new production mechanisms, and organizational forms that reduce costs and risks, while providing and improving various products that meet the diverse needs of stakeholders. (Zanagi, 2022, p. 358)

Based on the foregoing, islamic financial innovation can be defined as a new idea or developed financial instrument designed and implemented to align with customer needs, achieve superior efficiency levels, and resolve financial challenges while maintaining adherence to islamic sharia principles.

2.2.2. The importance of financial innovation in islamic banks:

Financial innovation has emerged as a critical imperative for islamic banks, with its significance extending beyond competitive advantage to encompass:

- **Operational efficiency enhancement**: Innovation enables islamic banks to improve operational efficiency and customer experience through advanced technologies and digital platforms, creating a more efficient and competitive market. (Qandouz A. a.-K., 2020, p. 39)
- **Financial inclusion expansion**: Innovative fintech solutions have the potential to add 150 million new customers to islamic banking services, significantly broadening market reach. (Briki, 2018, p. 55)
- **Sustainability achievement:** Innovation facilitates the development of green sukuk and sustainability linked financing products that align with both sharia principles and Environmental, Social, and Governance (ESG) criteria (Alhammadi, 2025, p. 3)
- **Sharia technology balance:** Maintaining equilibrium between technological modernization and Sharia value preservation is crucial for long-term sustainability and competitiveness.
- **Challenge Resolution:** Innovation addresses critical issues including liquidity management, regulatory constraints, and competition with conventional banks, strengthening Islamic banks' capacity for economic development while maintaining religious compliance. (finance, 2018 , p. 218)

2.2.3. Strategies of financial innovation from an islamic perspective

Islamic banks require clear and purposeful strategies to regulate financial innovation processes effectively. The key strategies include:

- **Expanding beyond jurisprudential framework:** Ensuring innovations align with global collective sharia resolutions to address the challenge of divergent scholarly opinions on islamic financial products. (Hassiba, 2021, p. 320)

- **Excellence in economic efficiency:** Financial innovations must demonstrate high economic efficiency compared to conventional products while avoiding negative impacts such as inflation and wealth inequality. (Ben Ibrahim, 2015, p. 54)
- **Alignment with government policies:** Innovations should achieve individual welfare and ensure societal interests align with individual interests, following the principle of "la darar wa la dirar" (no harm and no reciprocal harm). (Gharbi, 2009, p. 209)
- **Excellence in community service:** Recognizing the dual nature of islamic economy through utilitarian sectors (profit oriented) and charitable sectors (otherworldly benefits). (Feradi, 2012, p. 136)
- **Avoiding Complexity**: Maintaining clear and straightforward sharia compliant formulas without unnecessary complication that may lead to prohibited transactions. (Yousfaoui, 2017, p. 124)
- **Balancing thinking and implementation:** Emphasizing the human factor by balancing creative thinkers with skilled implementers to ensure successful innovation execution. (Moussa, 2014, p. 12)

3. Empirical study:

The preceding discussion establishes two fundamental pillars for islamic banking: robust sharia governance frameworks and strategic financial innovation. While governance ensures religious compliance and institutional integrity, innovation enables competitiveness and market responsiveness. The critical question emerges: How does sharia governance influence financial innovation in islamic banks? Does stringent governance constrain innovation or provide the framework for sustainable and legitimate development? Understanding this dynamic relationship is essential for institutions balancing religious authenticity with market competitiveness. The following analysis examines this relationship through Al Salam Bank-Algeria, exploring how each governance dimension impacts the bank's innovative capabilities

Applied Aspect:

Field Procedures and Analytical Methods:

This study relied on a questionnaire, which was designed based on a set of previous research and studies in this field.

1. Population and Sample of the Study:

The study population consists of members of the board of directors, supervisory and control bodies, and the audit committee. This group was specifically chosen because of its direct involvement in decision-making processes, oversight functions, and internal governance mechanisms within the bank. Their perspectives and experiences are essential for understanding the research variables and ensuring the validity of the study results.

To collect empirical data, a structured questionnaire was designed and distributed to a purposive sample of 30 employees from Al Salam Bank-Algeria, representing various managerial and supervisory levels. This approach aimed to gather reliable information reflecting the institutional practices and perceptions related to the study objective

2. Study Variables:

Table (02): Coding of Variables

Study Dimensions and Axes	Code
Independent variable: Sharia Governance	X
Dimensions of Sharia Governance	
Justice and Accountability	X1
Commitment and Sharia Supervision	X2
Transparency and Disclosure	X3
Independence of Sharia Supervision	X4
Top Management	X5
Communication and Coordination	X6
Sharia Review and Audit	X7
Dependent Variable: Financial Innovation	Y

Source: Prepared by the researcher

4. **Reliability of the Study Tool:**

Reliability was measured using **Cronbach's Alpha coefficient** for all items, in addition to the overall reliability of the tool, as shown below:

Table (03): Reliability of the Study Tool

Study Dimensions	Number of Items	Cronbach's Alpha	Measurement Quality
Sharia Governance	36	0.85	Good
Innovation	21	0.922	Excellent
Questionnaire as a whole	57	0.8930	Good

Source: Prepared by the researcher using *STATA 17* outputs.

As shown, all Cronbach's Alpha values exceed 0.60, ranging from good to excellent. This result demonstrates that the internal consistency among the items of each dimension of the questionnaire is statistically acceptable, confirming that the measurement tool provides stable and coherent responses across its various components. Furthermore, the overall reliability coefficient reached 89.30%, which indicates that the study tool possesses a high degree of reliability suitable for research purposes. Such a result reinforces the credibility of the data collected and ensures that the instrument can consistently measure the intended constructs without significant random errors, thereby enhancing the validity and dependability of the research findings.

4. Description of the Study Sample:

The study is based on personal data of the respondents, such as gender, age, educational level, and work experience. A descriptive analysis was conducted using frequencies and percentages as follows:

Table (04): Distribution of the Sample by Characteristics

Variable	Frequency	Percentage (%)
Gender		
Male	13	43.33
Female	17	56.67
Age		
Less than 25 years	5	16.67
25–35 years	20	66.67
More than 35 years	5	16.67
Professional Experience		
Less than 5 years	11	36.67
5–10 years	17	56.7
More than 10 years	2	6.67
Educational Level		
Secondary	1	3.33
Bachelor's	12	40
Master's	17	56.67
Total	30	100

Source: Prepared by the researcher using *STATA 17*.

The data presented in the table illustrates the demographic characteristics of the study sample, consisting of 30 respondents from Al Salam Bank – Algeria.

Gender: The distribution of respondents by gender shows that females represent the majority, accounting for 56.67% (17 individuals), while males make up 43.33% (13 individuals). This indicates a relatively balanced representation between genders, with a slight predominance of female participants, suggesting that women hold an active presence in the bank's administrative and supervisory roles.

Age: Regarding the age variable, the majority of respondents (66.67%) fall within the 25–35 years age range. This implies that most employees are young adults, reflecting a dynamic and potentially adaptable workforce. Participants aged less than 25 years and more than 35 years each represent 16.67% of the sample, showing limited representation from the youngest and oldest age groups.

Professional Experience: The data also reveals that 56.7% of respondents have between 5 and 10 years of professional experience, while 36.67% have less than 5 years, and only 6.67% possess more than 10 years of experience. This suggests that the majority of the participants are moderately experienced, likely familiar with the bank's operational systems and internal procedures, which enhances the credibility of their responses.

Educational Level: As for educational attainment, more than half of the respondents (56.67%) hold a Master's degree, while 40% possess a Bachelor's degree, and only 3.33% have a secondary education level. These results demonstrate that the study sample is highly educated, which

contributes positively to the accuracy and depth of their responses, particularly in a field that requires analytical and managerial skills such as banking.

Overall Analysis:

In summary, the demographic profile of the respondents reflects a well-educated, relatively young, and moderately experienced workforce with a balanced gender distribution. Such characteristics are favorable for the reliability and relevance of the study results, as they ensure informed and diverse perspectives within the sample.

5. Presentation and Analysis of Study Variables:

Table (05): Results of Respondents' Answers to Study Variables

Degree of Agreement	Std. Deviation	Mean	Axis
High	0.072	3.62	Sharia Governance
High	0.110	3.79	Innovation

Source: Prepared by the researcher using *STATA 17*.

The results indicate that the respondents show a high level of agreement regarding both Sharia governance (mean = 3.62) and innovation (mean = 3.79). This suggests that the participants generally perceive the principles and practices of sharia governance as well established and effectively implemented within the bank. Similarly, the high mean score for innovation reflects a positive assessment of the bank's efforts in introducing new financial products, services, or processes. The relatively high agreement levels for both constructs demonstrate a favorable perception among employees, implying that the organizational environment supports adherence to sharia principles while simultaneously encouraging innovative practices. Furthermore, the small standard deviations associated with these means indicate a low variation in responses, highlighting a consistent and shared understanding among the sample members regarding the importance of both sharia governance and innovation in achieving institutional objectives.

6. Hypothesis Analysis: Regression Testing

1. Conditions for Applying Regression Analysis

Before testing the hypotheses using simple and multiple regression, certain assumptions were examined:

a. Linearity between independent and dependent variables:

The linear relationship between Sharia governance dimensions and innovation was examined using Spearman's correlation.

Table (06): Spearman Correlation Coefficient

Variables	X1	X2	X3	X4	X5	X6	X7
Spearman Coefficient	-0.114	0.23	0.118	0.3958	0.570	- 0.1052	0.122

Source: Prepared by the researcher using *STATA 17*.

The correlation coefficients range between 0.114 and 0.57, indicating weak to moderate relationships between the independent variables (dimensions of Sharia governance) and the dependent variable (financial innovation). These values suggest that, while some dimensions exhibit a moderate connection with innovation, others have a relatively minor influence. Despite the varying strength of the correlations, all coefficients are positive (except X1, and X6 which are negative), confirming the presence of a linear relationship between the independent and dependent variables. This linearity is essential for applying regression analysis, as it ensures that changes in the independent variables are associated with predictable changes in the dependent variable, thereby validating the use of linear modeling techniques to analyze the impact of sharia governance on financial innovation.

b. Absence of Multicollinearity:

checked through correlation matrix among independent variables.

Table (07): Correlation Matrix between Independent Variables

	X1	X2	X3	X4	X5	X6	X7
X1	1						
X2	0.5151	1					
X3	0.1899	0.3899	1				
X4	0.222	0.3607	0.3607	1			
X5	0.0147	0.2587	0.5982	0.3281	1		
X6	0.5502	0.5801	0.0185	0.0996	0.0753	1	
X7	0.5457	0.6625	0.4427	0.4954	0.2859	0.4798	1

Source: *STATA 17 outputs*.

From the table above, it is observed that the correlation coefficients between the independent variables are all less than 0.7, which indicates the absence of multicollinearity among the independent variables.

c. Normality of data distribution:

Using Shapiro-Wilk test, since the sample exceeds 30 observations, as shown in the next table

Table: (08): Table of normal distribution of the study variables

Variable	Obs	W	V	z	Prob>z
X1	30	0.96659	1.062	0.125	0.45045
X2	30	0.98175	0.580	-1.126	0.86993
X3	30	0.97047	0.938	-0.131	0.55221
X4	30	0.92287	2.452	1.854	0.03186
X5	30	0.99234	0.243	-2.922	0.99826
X6	30	0.98835	0.370	-2.053	0.97999
X7	30	0.97796	0.701	-0.736	0.76899
y	30	0.94788	1.657	1.044	0.14832

Source: *STATA 17 output*.

Results show significance levels above 0.05, except for X4, indicating that most variables follow a normal distribution.

d. Variance inflation factor (VIF) and Tolerance

To determine whether the independent variables are correlated with each other, both the Variance Inflation Factor (VIF) test and the Tolerance test are used. The obtained results are presented in the following table:

Table (09): VIF and Tolerance Values

Variable	VIF	Tolerance
X1	1.78	0.560995
X2	2.34	0.4278
X3	2.04	0.49044
X4	1.46	0.6870
X5	1.69	0.5917
X6	2.04	0.4900
X7	2.50	0.3999

Source: Prepared by the researcher using *STATA 17*.

Since all variance inflation factor (VIF) values are less than 10 and tolerance values exceed 0.1, multicollinearity is not a concern in this study. This indicates that the independent variables representing different dimensions of sharia governance do not exhibit excessive linear relationships among themselves, which could otherwise distort the estimated regression coefficients. The absence of multicollinearity ensures that each predictor contributes unique information to the model, allowing for accurate estimation of its individual effect on the dependent variable, financial innovation. Consequently, the regression analysis can proceed safely, providing reliable and interpretable results that reflect the true relationships between Sharia governance dimensions and innovation outcomes within the bank.

7. Presentation and Analysis of Sub Hypotheses

Multiple regression analysis (Enter method) was used to identify the effect of sharia governance dimensions on financial innovation. As it is showed in the following table:

Table (10): Multiple Linear Regression of sharia governance dimensions and financial innovation using the Enter method

Source	SS	df	MS	Number of obs	=	30
				F(7, 22)	=	2.48
Model	4.3596008	7	.622800115	Prob > F	=	0.0488
Residual	5.52614294	22	.251188315	R-squared	=	0.4410
				Adj R-squared	=	0.2631
Total	9.88574374	29	.340887715	Root MSE	=	.50119

y	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
X1	-.0624954	.158567	-0.39	0.697	-.3913432	.2663524
X2	.6178588	.2511534	2.46	0.022	.0969985	1.138719
X3	.0589693	.2261758	0.26	0.797	-.4100907	.5280292
X4	.7006449	.2464611	2.84	0.009	.1895159	1.211774
X5	-.1526409	.266704	-0.57	0.573	-.7057511	.4004693
X6	-.1540987	.2385319	-0.65	0.525	-.6487837	.3405862
X7	-.5155368	.2034847	-2.53	0.019	-.9375383	-.0935353
_cons	1.716397	1.154942	1.49	0.151	-.6788067	4.1116

Source: STATA 17 outputs.

The table presents the results of the statistical analysis for the multiple linear regression test between the dimensions of sharia governance and financial innovation using the Enter method. The data show that the coefficient of determination (R^2) is 0.4410, indicating that sharia governance explains 44.10% of the variation in financial innovation, while the remaining percentage is attributed to other factors or measurement errors.

It is also observed from the table that the F-statistic value is 2.48, which is statistically significant, with a p-value of 0.0488, lower than the study's adopted significance level of 0.05. This result confirms the overall validity of the model, indicating that the relationship between the dimensions of sharia governance and innovation is statistically significant as a whole. Therefore, the regression model can be reliably used to represent the linear relationship between the two variables.

To verify the validity of the sub-hypotheses, the remaining part of the table is examined.
Justice and Accountability (X1): The coefficient is -0.06 with a p-value of 0.697, indicating that this dimension does not have a statistically significant effect on innovation. This suggests that while justice and accountability are important for regulatory and ethical purposes, they do not actively promote creative financial initiatives, likely due to their focus on control and compliance rather than fostering innovative thinking.

Commitment and Sharia Supervision (X2): The coefficient is 0.617 with a p-value of 0.022, showing a statistically significant positive effect on financial innovation. This implies that strong commitment to Sharia compliance and effective supervision not only ensures adherence to religious principles but also supports innovation by creating a trustworthy and secure environment for developing new financial products.

Transparency and Disclosure (X3): With a coefficient of 0.0589 and a p-value of 0.797, this dimension is not significant. Transparency primarily enhances credibility and accountability rather than directly stimulating innovation, highlighting the distinction between compliance oriented practices and creativity driven outcomes.

Independence of Sharia Supervision (X4): The coefficient of 0.7006 and p-value of 0.009 indicate a significant positive effect. Independence allows the Sharia supervisory body to operate without undue influence from management, granting it the flexibility to encourage innovation while ensuring that new financial products remain compliant.

Top Management (X5): The negative coefficient of -0.1526 with a p-value of 0.573 indicates no significant effect. This suggests that top management's focus on operational stability and regulatory compliance may limit its role in directly promoting innovative practices.

Communication and Coordination (X6): The negative coefficient is -0.1540 with a p-value of 0.525, showing no significant impact. Weak or formalized communication channels between departments may hinder the exchange of innovative ideas, reducing the effectiveness of coordination in supporting financial innovation.

Sharia Review and Audit (X7): The regression coefficient is -0.515 with a p-value of 0.019, indicating a significant negative effect on financial innovation. This inverse relationship can be explained by the fact that sharia review and audit, while essential for ensuring compliance with islamic principles, may in some cases restrict innovation freedom due to the strictness of supervisory procedures and the lengthy verification processes. Such rigidity can slow down the development of new financial products and reduce their flexibility in adapting to market changes.

Overall Interpretation:

The results indicate that not all dimensions of Sharia governance equally influence financial innovation. While Commitment and Sharia Supervision (X2), Independence of Sharia Supervision (X4), and Sharia Review and Audit (X7) significantly contribute to innovation, other dimensions such as justice, transparency, top management, and communication do not show a direct effect. This suggests that innovation in Islamic banks is most strongly supported by governance practices that combine compliance with flexibility and oversight, rather than by administrative control or formal procedures alone.

8. Testing the Main Hypothesis

Hypothesis:
"There is a statistically significant effect of Sharia governance on innovation at Al Salam Bank." Which is shown in the following table:

Table (11): Simple linear regression between sharia governance and financial innovation

Source	SS	df	MS	Number of obs	=	29
				F(1, 27)	=	0.51
Model	.172564534	1	.172564534	Prob > F	=	0.4821
Residual	9.1728329	27	.339734552	R-squared	=	0.0185
				Adj R-squared	=	-0.0179
Total	9.34539744	28	.333764194	Root MSE	=	.58287

y	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
x	.2023764	.2839579	0.71	0.482	-.380257	.7850098
_cons	3.059373	1.035184	2.96	0.006	.9353498	5.183396

Source: STATA 17 outputs.

The table presents the statistical results of the simple linear regression analysis between Sharia governance and financial innovation. The coefficient of determination (R^2) was found to be 0.018, indicating that 1.8% of the variation in the dependent variable (financial innovation) is explained by changes in the independent variable (Sharia governance).

It is also observed from the table that the F-statistic value reached 0.51 with a corresponding p-value of 0.48, which is higher than the significance level of 0.05 adopted in the study. Furthermore, the regression coefficient (B) of Sharia governance shows a positive sign, suggesting a positive (direct) relationship between Sharia governance and financial innovation. However, the calculated t-value of 0.71 with a p-value of 0.482, which also exceeds the 0.05 significance level, indicates that Sharia governance does not have a statistically significant effect on financial innovation.

Thus, Sharia governance does not significantly affect financial innovation in Al Salam Bank.

This can be explained by the fact that governance in practice is often formal and compliance oriented, focusing more on control than creativity, with limited communication between Sharia boards and executive management.

9. Summary of Hypotheses Testing

Supported Hypotheses:

1. There is a significant effect of **X2 (Commitment and Sharia Supervision)** on innovation.
2. There is a significant effect of **X4 (Independence of Sharia Supervision)** on innovation.
3. There is a significant effect of **X7 (Sharia Review and Audit)** on innovation.

Unsupported Hypotheses:

1. No significant effect of **X1 (Justice and Accountability)**.
2. No significant effect of **X3 (Transparency and Disclosure)**.
3. No significant effect of **X5 (Top Management)**.
4. No significant effect of **X6 (Communication and Coordination)**.

Conclusion:

The study conducted on Al Salam Bank -Algeria concludes that sharia governance, in its current form, does not have a statistically significant impact on financial innovation. Although the bank applies multiple governance dimensions, their influence on innovation remains limited.

This outcome suggests that the implementation of Sharia governance in Islamic banks is still mainly compliance-oriented, focusing on regulatory and ethical control rather than fostering creativity and the development of innovative financial products.

Overall, the study highlights the need for a more dynamic and flexible approach to Sharia governance one that not only ensures religious compliance but also actively encourages innovation and competitiveness within Islamic financial institutions.

Recommendations:

To enhance the effectiveness of Sharia governance and promote sustainable financial innovation -for Al Salam Bank-Algeria and similar Islamic financial institutions- several strategic actions are recommended:

- **Strengthen Sharia Supervision Mechanisms**: Reinforce the authority and operational efficiency of Sharia Supervisory Boards while ensuring their full independence from management influence to maintain credibility and compliance integrity.
- **Enhance the Role of Sharia Audit:** Expand the scope of Sharia audit functions beyond compliance verification to include advisory and innovation-support roles, facilitating the development of new Sharia-compliant financial products.
- **Leverage Administrative Dimensions for Innovation:** Foster stronger communication, coordination, and top management involvement to create an enabling environment where governance and innovation can reinforce each other.
- **Align Governance with Innovation Objectives:** Shift governance improvements toward dimensions that actively drive innovation, such as transparency, accountability, and strategic coordination rather than focusing solely on procedural compliance.
- **Promote Capacity Building and Digital Integration:** Invest in specialized training programs on Sharia governance and innovation management, and adopt digital tools that enhance monitoring, reporting, and product development processes.

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