







“The relationship between Sharia governance practices and financial resilience in Islamic microfinance institutions”

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THE RELATIONSHIP BETWEEN SHARIA GOVERNANCE PRACTICES AND FINANCIAL RESILIENCE IN ISLAMIC MICROFINANCE INSTITUTIONS

Abstract

The intersection of Sharia governance practices and Islamic microfinance institutions' (IMFi) financial resilience in Indonesia is critical to understand, especially given the unique nature and growing importance of Sharia-compliant financial systems in modern economies. This study examines the relationship between Sharia governance practices and IMFi's financial resilience in Indonesia. The exploratory factor analysis and a Partial Least Squares Structural Equation Model were employed. The results of the exploratory factor analysis identified three distinct components of financial resilience for IMFi: financial performance reflecting the institution's profitability and efficiency; financial adaptability, indicating its capacity to adjust to economic changes and shocks; and financial robustness, measuring the strength of its capital base and risk management systems to absorb losses. Structural equation modeling using Partial Least Squares reveals a complex relationship between Sharia governance practices and financial resilience; specifically, a strong Sharia governance framework and an institution's transparency and confidentiality were found to have a significant positive impact on overall financial resilience. Rigid consistency procedures and a more prominent role of the Sharia board were unexpectedly found to negatively influence financial resilience, suggesting that excessive procedural rigidity or overly conservative board oversight might hamper an institution's ability to respond flexibly to financial challenges. The findings extend contingency- and resource-based theory by evidencing the differential impact of sharia governance practices on financial resilience. This study recommends that managers prioritize transparent reporting systems and regulators mandate a clear governance structure for Indonesia's Islamic microfinance institutions.

Keywords

Sharia governance practice, financial resilience, Islamic microfinance institution, Indonesia

JEL Classification

G34, G32, M21

INTRODUCTION

The investigation into the relationship between Sharia governance practices and financial resilience in Islamic Microfinance Institutions (IMFi) is imperative, as it directly underpins the structural integrity and mission effectiveness of entities dedicated to poverty alleviation and economic empowerment within Islamic finance ecosystems. By mandating strict adherence to Sharia principles, robust Sharia governance practices do not merely ensure compliance; they fundamentally fortify institutional credibility, mitigate critical risks- including Sharia non-compliance- and enhance operational stability, thereby directly strengthening the financial resilience necessary to serve marginalized populations.

Despite the acknowledged theoretical importance of sharia governance, a critical and conspicuous gap persists in the empirical literature. While prior studies have affirmed its role in improving overall financial outcomes, there is a stark absence of rigorous, direct evidence linking specific



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sharia governance practices to IMFi's financial resilience. This lacuna is further exacerbated by the prevailing research focus on broad Islamic banking principles, which systematically overlooks the unique operational challenges, contextual vulnerabilities, and distinct governance dynamics inherent to the microfinance sector, leaving the specific mechanisms that drive resilience in these institutions largely unexplored and unverified.

1. LITERATURE REVIEW

This literature review presents relevant theoretical and empirical studies on the research problem, situating the present study within the existing body of knowledge. This section synthesizes prior research by organizing the discussion around key concepts and debates directly aligned with the study's objective, thereby identifying the conceptual foundations and empirical patterns.

1.1. Financial resilience

The term "financial resilience" refers to an organization's ability to handle financial stress, address financial and economic problems, and recover from losses by maximizing available resources. In the IMFi context, financial resilience is exemplified by the delivery of sharia-compliant financial services designed to empower financially marginalized communities. Azrak and Edema (2022) argue that these institutions address clients' immediate financial needs and foster financial literacy and education, which are crucial for sustainable economic conduct and resistance to financial disruption. Financial resilience can be achieved through effective Sharia governance practices, including the involvement of a Sharia supervisory board, enhanced ethical management, and contract legality and compliance, thereby improving overall performance and resilience (Kulmie et al., 2026). In addition, financial resilience is achieved by prioritizing sharia compliance and robust risk management (Mutamimah et al., 2022; Qadri & Ali, 2024). To enhance Sharia governance practice in Islamic Microfinance Institutions, they should align Sharia principles with current market reliability, integrate Sharia governance into risk management, and improve the training and qualifications of Sharia board members (Jan & Ismail, 2023; Kulmie et al., 2026).

The relationship between governance practices and financial resilience is supported by numerous theoretical frameworks that demonstrate how

effective governance practices can enable these institutions to remain strong and financially resilient. Agency theory (Jensen & Meckling, 1976) offers a fundamental viewpoint, positing that robust governance mechanisms, such as the roles of an independent board, are necessary. The Sharia board can mitigate information asymmetry and synchronize managerial interests with shareholder interests. In the case of IMFi, which often operates in areas with limited regulations and inadequate resources, effective governance is essential to prevent agency problems and maintain financial stability. Another theory that may explain this relationship is the resources-based theory (Barney, 1991), which posits that governance systems perceived as resources are valuable, rare, well-organized, and inimitable. In addition, the contingency theory asserts that inflexibility of uniform governance procedures may not consistently improve organizational outcomes.

1.2. Sharia's governance practice

The Sharia governance system within Islamic microfinance institutions provides a regulatory framework that ensures adherence to Islamic principles while encouraging effective governance (Hasan, 2011). Seven major elements comprise this governance: the Sharia governance framework, Sharia board competency, Sharia board independence, Sharia board role, Sharia board performance, consistency procedures, and transparency and confidentiality. Each of these parts is crucial for performing its job well and maintaining financial resilience. The Sharia governance framework makes Islamic Microfinance Institutions more trustworthy, enabling them to defend themselves against claims of wrongdoing or misconduct (Buallay, 2019). It includes the organizational arrangements, policies, processes, and procedures that guide the IMFi toward sharia compliance (Minhas, 2023; Mohd Arif & Markom, 2013; Shafii et al., 2013). In addition, the Sharia governance framework involves regular internal Sharia reviews and audits to maintain oversight

and accountability (Shafii et al., 2013). Different countries have adopted various models of Sharia governance frameworks, with centralized models like Malaysia's being particularly effective in ensuring consistency and credibility (Hamza, 2013; Yaş & Aysan, 2023). In conclusion, the Sharia governance framework plays a critical role in enhancing the credibility, accountability, and legitimacy of Islamic Microfinance Institutions by ensuring consistent compliance with Sharia principles. In addition, a Sharia-compliant IMFi strengthens stakeholders' confidence, supports prudent decision-making, and improves institutional discipline, all of which are essential for sustaining financial resilience.

Sharia board competency is vital for Sharia governance practice. Governance works best when it has people with extensive knowledge of both Islamic law and modern business practices (Rois & Salahuddin, 2022). Competency instils confidence in the institution's capacity to manage its financial portfolio effectively, ensuring compliance with regulatory requirements and meeting client expectations. A Sharia board must have both Sharia and accounting knowledge, although experience in Islamic finance and banking can be considered if formal qualifications are lacking (Shafii et al., 2013). The education and experience of Sharia scholars positively impact the financial stability and performance of IMFi, including Islamic banks (Mkadmi & Benali, 2025; Rafique, 2025; Sueb et al., 2022). However, there are concerns about the general competency of Sharia board members, particularly their technical knowledge of banking and finance (Haridan et al., 2018). In conclusion, the competency of the Sharia board constitutes a cornerstone of effective Sharia governance and has direct implications for the financial resilience of Islamic Microfinance Institutions. Boards with strong expertise in Islamic jurisprudence, accounting, and modern financial practices are better positioned to provide oversight, ensure regulatory compliance, and guide prudent financial decisions.

Sharia board independence is crucial to maintaining the purity of Islamic financial practices, as it enables individuals to ensure compliance with sharia. This independence is essential for establishing trust among stakeholders and clients who require

assurance that financial transactions align with Islamic principles, thereby fostering a relationship built on mutual respect and ethical norms (Hasan et al., 2020; Karbhari et al., 2020). In addition, the independence of the Sharia board is a key factor in unbiased supervision and governance. Studies indicate that the independence of the Sharia board can be compromised, with boards sometimes rubber-stamping decisions made by top management (Haridan et al., 2018; Hassan et al., 2015, 2016). Centralized governance models, such as those in Malaysia, can strengthen the independence of Sharia boards (Hamza, 2013; Yaş & Aysan, 2023). In brief, the independence of the Sharia board is a fundamental element of effective Sharia governance and a key determinant of the financial resilience of Islamic microfinance institutions. They are better able to exercise objective oversight, ensure genuine compliance with Sharia principles, and prevent undue managerial influence over religious and ethical judgment. This condition enhances stakeholders' trust and clients' confidence, which are important for maintaining stable funds, customer loyalty, and reputational strength.

The role of the Sharia board is to function in an Islamic Microfinance Institution. The optimal role of the Sharia board encompasses both ex ante and post dimensions of Sharia governance, such as pronouncement (*fatwa*), monitoring (*ragabah*), and review (*mutabah*) (Hasan, 2011). The Sharia board plays a unique role in ensuring IMFi's compliance with Islamic law. They are responsible for monitoring and ensuring that all transactions and operations comply with Islamic principles (Ajili & Bouri, 2018; Sueb et al., 2022). The role of Sharia boards includes overseeing product development, compliance reviews, and audits (Islam & Bhuiyan, 2021; Khan, 2023). However, their effectiveness can be limited by their ceremonial roles rather than active monitoring (Haridan et al., 2018). When Sharia board roles are effectively executed, they ensure continuous adherence to Sharia principles across institutional operations, thereby reducing Sharia non-compliance, operational, and reputational risks, which are essential to sustaining financial resilience.

Shariah board performance encompasses several aspects, namely accountability, organizational communication, sharia non-compliance risk,

Islamic ethics and values, and the shariah control process (Hasan, 2011). The performance of Sharia boards is influenced by factors such as their size, meeting frequency, and qualifications. Larger boards with frequent meetings and qualified members tend to perform better (Rihab Grassa et al., 2023; Kateb et al., 2025; Mkadmi & Benali, 2025). The presence of competent Sharia scholars and effective audit committees also positively influences the performance of IMFi, such as Islamic banks (Aslam et al., 2021; Chariri, 2019). To review, strong performance of the Sharia board is a multidimensional construct integral to the effectiveness of Sharia governance and the financial resilience of Islamic microfinance institutions. Strong performance, reflected in accountability, effective organizational communication, and robust management of Sharia noncompliance risk, enhances governance quality and institutional discipline.

The consistency procedure is a part of the governance processes that must be maintained over time. Consistency promotes trust among stakeholders and ensures that the institution's goals are realized without violating these basic ethical rules. This need for uniformity not only appeals to clients on moral reasons but also makes operations more resilient (Shikur & Akkas, 2024). Consistency procedures enhance stability and cultivate an environment conducive to sustaining growth and development (Isa et al., 2021). In addition, consistency in Sharia rulings is essential for maintaining credibility and trust in IMFi. Centralised governance models help promote consistency in Fatwas and interpretation across different IMFi and regions (Hamza, 2013). The establishment of a centralized Sharia board can mitigate disputes and ensure uniformity in Sharia compliance (Alam et al., 2019; Yaş & Aysan, 2023). Overall, consistent procedures strengthen stakeholder trust, ensuring sustained adherence to ethical and Sharia principles, which are fundamental to institutional credibility and support long-term growth, thereby contributing to financial resilience as well.

Transparency and confidentiality are key aspects of IMFi's operations, as they enable stakeholders to see how funds are handled and how well the organization adheres to Islamic law. Transparent principles facilitate the unambiguous disclosure

of rules, procedures, and performance measures, hence fostering confidence among clients and investors (Wijayanti et al., 2023). Transparency is important, especially when reaching a broader client base in the micro sector, which is challenging (Azmi & Thaker, 2020). Cheumar et al. (2023) argue that transparency is associated with client happiness and loyalty, ultimately yielding favorable outcomes. In addition, effective disclosure practices and transparency in operations enhance stakeholders' trust and confidence (Khan, 2023; Mohd Arif & Markom, 2013). However, confidentiality concerns can lead to the concealment of information, undermining the integrity of Sharia governance (Khan, 2023). Ensuring transparency while maintaining confidentiality is a delicate balance that needs careful management (Haridan et al., 2018; Hassan et al., 2015). In brief, transparency and confidentiality strengthen stakeholder trust, client loyalty, and confidence in Sharia compliance. It is important for sustaining stable funding and long-term institutional relationships. As a result, well-managed transparency directly supports IMFi's financial resilience.

Sharia governance practices are a key part of ensuring that Islamic law is followed. This is important for the moral administration and operational efficiency of IMFi (Grassa et al., 2025; Kulmie et al., 2026). Good Shariah governance practices build public trust. It makes it easier for everyone to engage with the financial system and increases IMFi's resilience by encouraging responsible financial behavior and building trust among stakeholders (Grassa et al., 2025; Kulmie et al., 2026). In addition, the Sharia supervisory board plays a crucial role in IMFi governance, with attributes such as member independence and a positive influence on financial outcomes (Al Thnaibat et al., 2024). Effective Sharia governance enhances microfinance institutions' ability to withstand external market pressure and maintain financial resilience (Hlatshwayo & Mpundu, 2024). It can be concluded that effective Sharia governance practices reinforce ethical conduct, operational efficiency, and stakeholder confidence within Islamic Microfinance Institutions (IMFi). Consequently, robust Sharia governance practices directly enhance financial resilience by enabling IMFi to withstand external pressures and maintain stable, sustained performance over time.

There are limited studies on the relationship between Sharia governance practices and the financial resilience of the IMFi, especially using Indonesian data. Most similar studies employed Islamic Microfinance Institutions, such as Islamic banks (Chariri, 2019; Grassa et al., 2023; Hamza, 2013; Kateb et al., 2025; Mkadmi & Benali, 2025; Rafique, 2025; Sueb et al., 2022). The combination of these seven elements creates a robust Sharia governance framework that can help Islamic Microfinance Institutions succeed. By ensuring each part is implemented correctly, IMFi can operate honestly and efficiently through the communities. It serves to become more economically independent. Finally, Shariah governance practice remains a valuable tool for promoting the financial resilience and sustainable performance of Islamic Microfinance institutions.

This research article examines the relationship between Sharia governance practices and the financial resilience of Islamic Microfinance Institutions and develops the following hypotheses.

- H1: Sharia governance framework is related to financial resilience.*
- H2: Sharia board competency is related to financial resilience.*
- H3: Sharia board independence is associated with financial resilience.*
- H4: Sharia board role is related to financial resilience.*
- H5: Sharia board performance influences the financial resilience.*
- H6: Consistency procedure influences the financial resilience.*
- H7: Transparency and confidentiality have an impact on financial resilience.*

2. METHOD

The study aims to examine the effect of governance practices in Islamic Microfinance Institutions on financial resilience. The quantitative methodology

is applied to achieve the research purposes. The design is cross-sectional, capturing institutional characteristics and governance practices at a specific point in time. A survey-based approach is employed to enable empirical testing of the hypothesis relationship. This design is appropriate for assessing the strength and direction of the associations between governance-related constructs and financial resilience outcomes. The IMFi operating in selected areas in West Sumatra Province is the object of this study. Their population consists of 149 IMFi units operating in 17 cities and regencies. Since the population size is limited, this study targets all members of the population as the research sample.

This study uses primary data collected through a survey. Primary data was collected via a survey conducted from July to August 2025. The IMFi manager is a respondent to this study. The involvement of managers as respondents in this study is grounded in a critical reason: managers are often the primary implementers of governance frameworks within their organizations, thereby influencing how Sharia governance is applied. Their perspectives are essential to understanding the practical implications of Sharia governance practices on financial resilience. The surveyor distributed the questionnaire and asked them to pick it up a week later. This study involves human participation, and it has been ensured that impartiality, anonymity, and respondent consent are maintained.

Additionally, the university's ethics committee has approved the use of human subjects. This study uses a previously tested questionnaire. It benefits both methodologically and strategically. Firstly, adopting a validated instrument ensures reliability and validity, as the questionnaire has already undergone rigorous testing in prior research contexts. It minimizes the risk of measurement error and enhances the credibility of the collected data. Secondly, a tested questionnaire allows for comparability across studies, enabling the current research findings to be situated within a broader academic discourse on governance practices and financial resilience, particularly among IMFi.

The survey procedure was designed to ensure the systematic, reliable, and ethical collection of primary data on Sharia governance practices and financial resilience. A systematic questionnaire

was created to evaluate the practice of Sharia governance and financial resilience. The variables assessed included the transparency and confidentiality mechanism (4 items), Sharia board performance (5 items), Sharia board role (4 items), competency mechanism (5 items), independence mechanism (5 items), operating procedure (10 items), and Sharia governance framework (7 items), all adapted from prior studies (Hasan, 2011). In addition, financial resilience is measured using 14 items adapted from earlier researchers (Diego et al., 2025; Helden et al., 2025; Odoch & Wofuma, 2024). We conducted a pilot test with experts and 20 students, and assessed face and content validity. The questionnaires were distributed to the IMFi and completed by managers or representatives. They rated the level of agreement on a 5-point Likert scale, with one indicating “strongly disagree” and 5 indicating “strongly agree”. Respondents who answered did so of their own free will, and their responses were kept private. There are two steps in data analysis. First, the exploratory factor analysis was conducted for the financial resilience variable. Second, the Partial Least Squares-Structural Equation Modelling (PLS-SEM) is employed, an approach appropriate for small to medium sample sizes and an explorato-

ry research setting. Regarding the PLS-SEM analysis, there are two actions: (1) measurement model evaluation, which assesses the convergent validity (outer loading, Cronbach alpha, composite reliability, and average variance extracted) and discriminant validity (Fornell-Larcker criteria and HTMT), and (2) Structural Model Evaluation, which assesses R-squared values, predictive relevance (Q^2), path coefficients, and their significance levels.

3. RESULTS

The results begin with respondents’ demographic data, proceed to an exploratory factor analysis of financial resilience, and conclude with an SEM-PLS analysis. This session discussed the demographic data of the respondents and IMFi. First, most respondents are women (66.67%), while men make up about one-third (33.33%). The majority of respondents are aged 31-40 years (37.1%) and 41-50 years (33.87%), followed by those aged 50 and above (22.58%), with a small percentage (8.06%) aged 20-30 years. Most IMFi have been around 11-20 years old (83.87%). Only a few are quite new (1 to 10 years, 9.68%) or older (20 to 30 years, 8.06%). Most of IMFi (90.48%) earn less than 300 mil-

Table 1. Demographic data

Demographic	Category	Frequency	Percentage
Gender of Respondents	Male	21	33.33
	Female	42	66.67
Age of Respondents	20-30 years	5	8.06
	31-40 years	23	37.1
	41-50 years	21	33.87
	> 50 years	14	22.58
	1-10 years	6	9.68
Age of IMFi	11-20 years	52	83.87
	20-30 years	5	8.06
	< 300 million IDR	57	90.48
Annual Income of IMFi	300 million – 2.5 billion IDR	3	4.76
	2.5 billion – 50 billion IDR	3	4.76
	< 5 employees	50	79.37
Number of IMFi Employees	5 – 15 employees	11	17.46
	> 15 employees	2	3.17
	< 50 million IDR	16	25.4
Total Assets of IMFi	50 million – 500 million IDR	20	31.75
	500 million – 10 billion IDR	27	42.86
	Padang	44	69.84
IMFi Location (Domicile)	Bukittinggi	2	3.17
	Pasaman	1	1.59
	Agam	8	12.7
	Pesisir Selatan	2	3.17
	Tanah Datar	5	7.94
	Sijunjung	1	1.59

lion IDR per year, while a small number (4.76%) earn between 300 million and 2.5 billion IDR or 2.5 billion and 50 billion IDR. The number of employees is also usually relatively modest. Almost four-fifths (79.37%) of them have fewer than five employees, and only 3.17% more than 15.

3.1. Exploratory factor analysis: Financial resilience

Financial resilience is first analyzed for exploratory factors. The KMO value of 0.785 indicates that the variables have sufficient shared variance to warrant factor analysis (Kaiser, 1970). Bartlett’s (1950) test of sphericity ($\chi^2 = 534.484$, $df = 78$, $p < 0.001$) indicates that the correlation matrix is not an identity matrix, indicating strong interrelationships among the factors (see Table 2). These results collectively suggest that the measuring approach possesses sufficient construct validity and is suitable for investigating the latent variable of financial resilience.

Table 2. KMO and Bartlett’s test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.785
Bartlett’s Test of Sphericity	Approx. Chi-Square	534.848
	df	78
	Sig.	<.001

A scree plot (see Figure 1), which is a frequent tool in factor analysis or Principal Components Analysis (PCA) to find the best number of factors to keep (Cattell, 1966). The first factor is the largest eigenvalue, the second declines quickly to about 2, and the third is about 1.2. The slope levels out after the fourth factor, and the eigenvalue drops below 1. Based on the Kaiser criterion (retain factors with eigenvalues >1), three factors were retained because they explain the most important variation (Kaiser, 1974).

The factor analysis results indicate that three primary factors underlie IMFi’s financial resiliency. The first factor, financial performance, has the greatest impact, with high loadings on the items. Financial adaptability, the second factor, measures IMFi’s ability to keep services on schedule, change operations, meet goals, and find new opportunities. The loading, eigenvalue, variance, and Cronbach’s alpha are shown in Table 2. The last factor, financial robustness, indicates that the IMFi follows the rules, implements plans, and handles crises effectively. It has adequate loadings (0.695-0.839), an eigenvalue of 1.224, a variance of 0.41%, and strong reliability ($\alpha = 0.796$) (Nunnally, 1978). In general, the three factors are strong and stable and can be used for the following purposes.

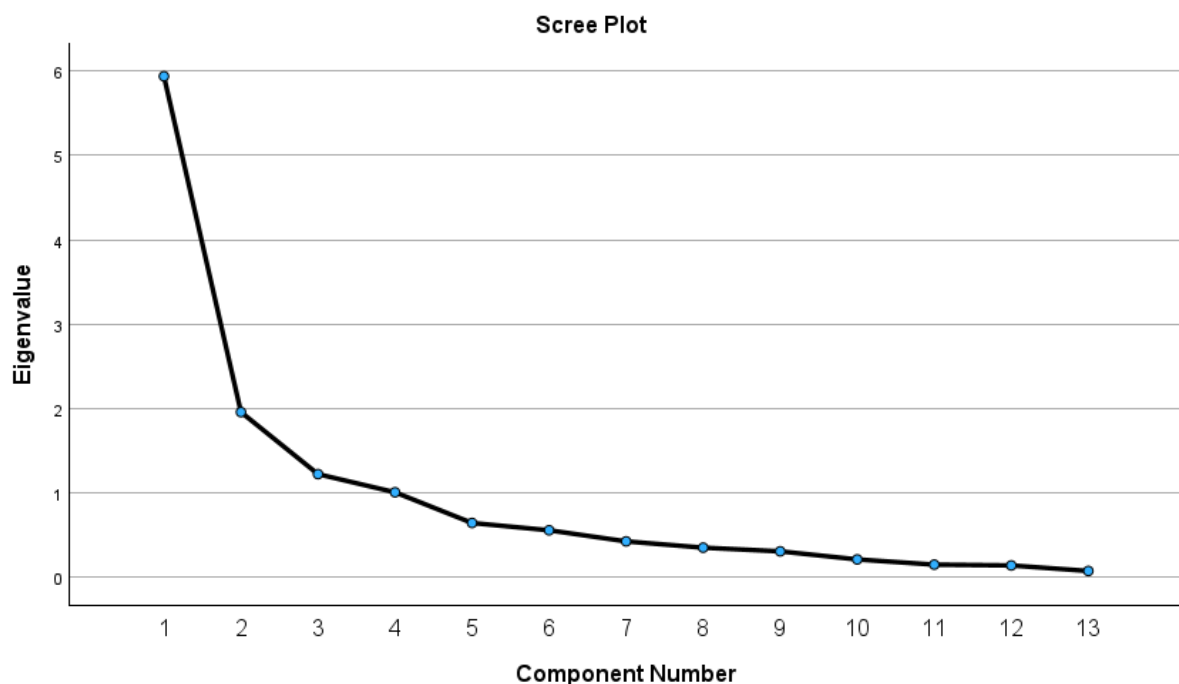


Figure 1. Scree plot

Table 3. Explanatory factor analysis: Financial resilience

Factor	Manifest	Code	Loading Factor	Eigenvalue	Variance (%)	Cronbach's Alpha
F1 (Financial Performance)	Our IMFi has experienced revenue growth from year to year	fr1	0.867	5.940	45.691	0.893
	Our IMFi has experienced an increase in profit before tax from year to year	fr2	0.925			
	Our IMFi can generate net cash flow from year to year	fr3	0.784			
	Our IMFi has experienced an increase in value added for stakeholders	fr4	0.66			
F2 (Financial Adaptability)	Our IMFi has never experienced delays in providing services to customers	fr7	0.632	1.959	15.067	0.857
	Our BMT easily adjusts operational procedures when needed	fr11	0.871			
	Our IMFi consistently follows the set targets	fr12	0.585			
F3 (Financial Robustness)	Our IMFi can easily find business opportunities	fr14	0.838	1.224	9.413	0.796
	Our IMFi complies with laws and regulations	fr6	0.698			
	Our IMFi implements all plans without postponement to the next period	fr8	0.695			
	Our IMFi manages financial crises well	fr9	0.839			
	Our IMFi ensures assets against crises and uncertainties	fr10	0.757			

3.2. Measurement model assessment

This session discussed the results of the measurement model evaluation. The measurement model (Hair et al., 2017) exhibits acceptable outer loadings for all variables (see Figure 2), with the majority of items exceeding the suggested threshold of 0.70 (Hulland, 1999); hence, it satisfies convergent validity. The model's explanatory strength is moderate to strong (Chin, 1998), with R^2 values of 0.327 for financial adaptability, 0.337 for economic performance, and 0.487 for financial robustness. It means that the model explains almost half of the variation in financial resilience.

Table 4 presents the testing for other convergent validity indicators of the constructs used in this study: Cronbach's alpha, composite reliability, and aver-

age variance extracted. The Cronbach alpha values for all constructs range from 0.806 to 0.945, which is well above the acceptable level of 0.700 (Bagozzi & Yi, 1988). It can be concluded that the constructs are quite consistent with each other. The composite reliability scores, ranging from 0.885 to 0.953, further indicate that the items in each construct consistently measure the same underlying construct (Bagozzi & Yi, 1988). The average variance extracted (AVE) values are all above 0.628, exceeding the suggested cut-off of 0.50 (Henseler, 2010), indicating convergent validity. In brief, each construct accounts for more than half of the variance in its indicators, which guarantees good convergence.

The Fornell-Larcker criterion is used to check for discriminant validity by comparing the square root of the AVE with the correlation between constructs.

Table 4. Validity and reliability of the construct

Construct	Cronbach's alpha	Composite reliability	Average variance extracted
Consistency procedure	0.945	0.953	0.669
Sharia board competency	0.907	0.931	0.730
Sharia board independence	0.895	0.927	0.761
Sharia board performance	0.853	0.894	0.628
Sharia board role	0.893	0.926	0.758
Sharia governance framework	0.925	0.941	0.728
Transparency and confidentiality	0.812	0.888	0.726
Financial adaptability	0.857	0.901	0.695
Financial performance	0.896	0.927	0.761
Financial robustness	0.806	0.885	0.719

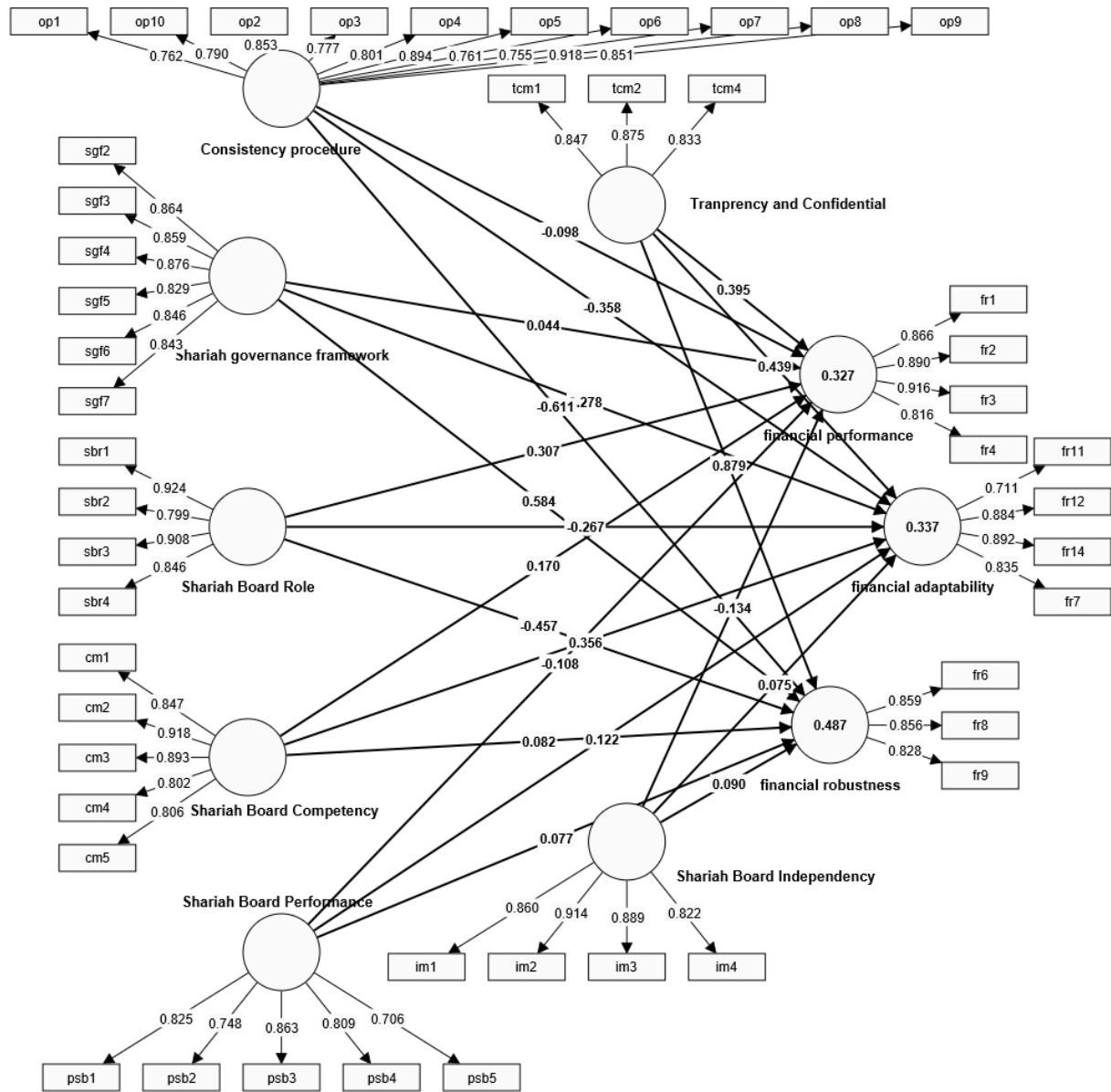


Figure 2. Measurement model

The diagonal values for each construct (from 0.793 to 0.872) are greater than the correlations between constructs and other constructs. This indicates that the construct is effective at distinguishing between different types of data. The Sharia board role (0.871) and Sharia board competency (0.854) are two examples of governance variables that demonstrate strong construct validity. To conclude, all constructs differ and measure distinct aspects.

3.3. Structural model assessment

The PLS-SEM results demonstrate the relationship between governance practices and financial

resilience in IMFi. The result of the predictive relevance (Q²) test for the endogenous variables: financial performance, financial adaptation, and financial robustness. The findings show that financial adaptability possesses a Q² value of 0.173. Financial performance has a value of 0.213, and financial robustness has a value of 0.286. Additionally, a Q² value greater than zero indicates that the model is useful for prediction.

Table 5 shows the path coefficients, t-statistics, and p-values from bootstrapping of the PLS-SEM (Structural Equation Model). The results demonstrate the significant impact of governance practic-

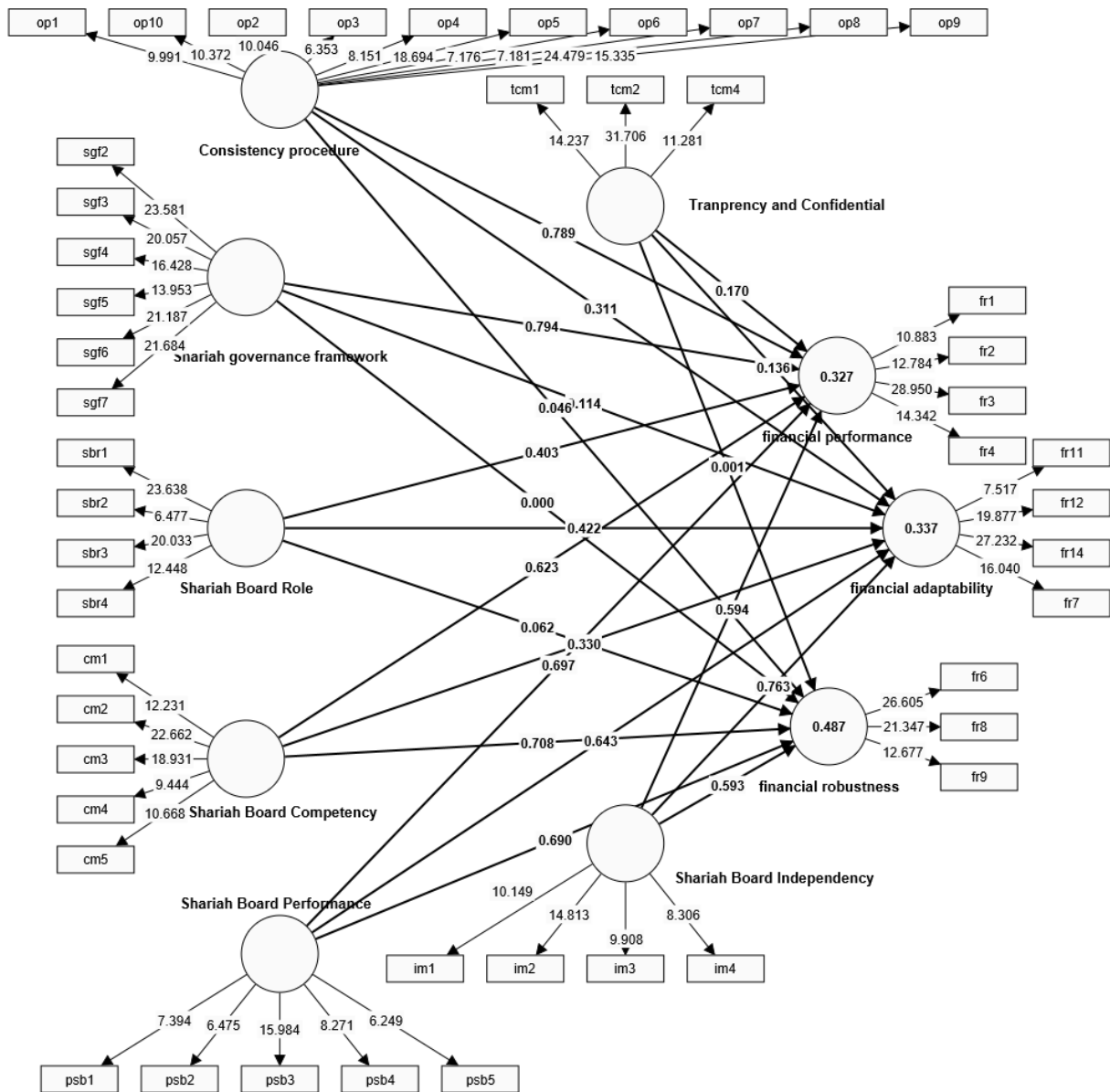


Figure 3. Structural equation model

es and financial resilience in IMFi as measured by three key variables: financial performance, financial adaptability, and financial robustness. The findings show that not all proposed associations are statistically significant. In particular, the Sharia governance framework exhibits a positive and significant association with financial robustness ($\beta = 0.584$, $t = 3.580$, $p < 0.000$), underscoring its crucial role in ensuring long-term sustainability (H1 accepted). In addition, the Sharia board role also has a significant negative effect on financial robustness ($\beta = -0.457$, $t = 1.863$, $p = 0.062$), suggesting that certain job practices may hinder an IMFi’s ability to withstand financial shocks (H4 accepted). Conversely, the con-

sistency procedure has a significant negative influence on financial robustness ($\beta = -0.611$, $t = 1.994$, $p = 0.046$), indicating that overly strict procedures may reduce resilience (H6 accepted). In the same way, transparency and confidentiality have a strong, positive, and significant impact on financial robustness ($\beta = 0.879$, $t = 3.330$, $p < 0.001$) (H7 accepted). Other relationships are not significant (H2, H3, and H5 rejected). Overall, the results show that governance practices are most helpful for long-term financial resilience, rather than for short-term adaptation or performance. Transparency and Sharia governance frameworks are key factors in building financial resilience.

Table 5. Path coefficient

Relationship	Original sample	T statistics	P values
Sharia governance framework → financial adaptability	0.278	1.583	0.114
Sharia governance framework → financial performance	0.044	0.262	0.794
Sharia governance framework → financial robustness	0.584	3.58	0.000***
Sharia board competency → financial adaptability	0.356	0.973	0.33
Sharia board competency → financial performance	0.17	0.492	0.623
Sharia board competency → financial robustness	0.082	0.375	0.708
Sharia board independence → financial adaptability	0.075	0.302	0.763
Sharia board independence → financial performance	-0.134	0.533	0.594
Sharia board independence → financial robustness	0.09	0.534	0.593
Sharia board role → financial adaptability	-0.267	0.803	0.422
Sharia board role → financial performance	0.307	0.836	0.403
Sharia board role → financial robustness	-0.457	1.863	0.062*
Sharia board performance → financial adaptability	0.122	0.464	0.643
Sharia board performance → financial performance	-0.108	0.39	0.697
Sharia board performance → financial robustness	0.077	0.399	0.69
Consistency procedure → financial adaptability	-0.358	1.013	0.311
Consistency procedure → financial performance	-0.098	0.268	0.789
Consistency procedure → financial robustness	-0.611	1.994	0.046**
Transparency and confidentiality → financial adaptability	0.439	1.491	0.136
Transparency and confidentiality → financial performance	0.395	1.373	0.17
Transparency and confidentiality → financial robustness	0.879	3.33	0.001***

Note: *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

4. DISCUSSION

This study finds that Sharia governance practices, as measured by the Sharia governance framework, Sharia board role, consistency procedures, and transparency and confidentiality, have a significant effect on financial resilience. This result aligns with previous research, which found that sharia governance practice is important for financial resilience (Chariri, 2019; Grassa et al., 2023; Hamza, 2013; Kateb et al., 2025; Mkadmi & Benali, 2025; Rafique, 2025; Sueb et al., 2022). The significant adverse effects of the consistency procedure on financial robustness raise critical questions about the balance between standardization and organizational flexibility. The inflexibility suggested by excessive procedural uniformity may indeed hinder an institution's capacity to respond adaptively to financial shocks or crises. This contention aligns with contingency theory, which holds that an organization's success depends on its ability to adapt to changing circumstances rather than adhering to strict rules (Elgattani & Hussainey, 2020; Muryanto, 2022). Therefore, this finding suggests that IMFi should implement the flexible procedures capable of accommodating this viewpoint (Abdallah &

Bahloul, 2021; BenSaid, 2023). Also crucial is the negative relationship between the Sharia board role and financial robustness. When the Sharia board has too much power, it can unintentionally make it harder for managers to make decisions, which is important for navigating uncertain market conditions. This argument aligns with the critique in agency theory, which highlights the disadvantages of excessive oversight, leading to bureaucratic stagnation that hinders innovation and strategic responsiveness (Basiruddin & Ahmed, 2019; Masruki et al., 2020).

The research elucidates that although Sharia boards are essential for ensuring compliance, their operational strategy must be reconciled with the necessity for managerial autonomy to sustain financial agility in a fluctuating economic environment (Al-Malkawi & Pillai, 2018; Alam, 2021). A significant finding reveals that the Sharia governance framework is strongly associated with enhanced financial robustness. This reinforces the claims that a well-defined Sharia governance framework and financial robustness are crucial for IMFi's financial resilience (Sudarwanto et al., 2023). This finding aligns with the resource-based theory or view of organizations, which asserts

that intangible resources, such as an efficient Sharia governance framework, can provide enduring competitive advantages (Harahap, 2021; Lubis, 2022). A strong Sharia governance framework is not just a list of rules. It builds confidence among stakeholders and facilitates quick decision-making during crises. Adaptability is a key factor for IMFi to remain financially resilient in the ever-changing environment in which it often operates (Farida & Setiawan, 2022). Transparency and confidentiality have a strong, significant positive impact on financial robustness. These things help reduce risk and build resiliency, especially in conditions of financial distress. This kind of strategic governance, along with transparency and confidentiality, not only builds stakeholders' trust but also helps IMFi address problems more effectively. Therefore, the IMFi needs to develop the transparency initiatives that are attuned to both internal dynamics and external influences.

The research findings have various practical implications for IMFi and regulators for enhancing financial resiliency. The significant effect of the Sharia governance framework and transparency variable on financial resilience, as indicated by financial robustness. It implies that IMFi managers should emphasize establishing a clear governance structure and a transparent reporting system. The negative link between procedural consistency and the Sharia board's role in financial

resilience suggests that governance standards shouldn't be overly strict. In addition, policy-makers and regulators need to strengthen governance rules by focusing on transparency and adaptation rather than just structural compliance. Theoretically, these findings corroborate contingency theory, which posits that inflexible, uniform governance procedures may not consistently improve organizational outcomes. The positive impact of the Sharia governance framework and transparency on financial resilience aligns with the resource-based view. It emphasizes governance as an intangible strategic resource that fosters long-term resilience. Hence, the insignificant effect of Sharia board competency and independence aligns with the premises of agency theory, which frequently underscore the role of attributes in influencing performance. Future research may enhance this work by incorporating a comparative analysis across areas or diverse categories of IMFi, such as Islamic rural banks, to assess the consistency of the identified pattern. In the next investigation, researchers should utilize secondary data in conjunction with survey data to triangulate results and enhance the robustness of their findings. The next investigation may employ mediating or moderating variables. Finally, future research may use case studies or a mixed-method approach to yield more comprehensive insights into the operationalization of sharia governance by IMFi and the impact of these practices on resilience over time.

CONCLUSION

This study examines the relationship between Sharia governance practices and the financial resilience of Islamic microfinance institutions in Indonesia. This research provides compelling empirical evidence that specific Sharia governance practices exert a profound and differentiated impact on the financial resilience of Islamic microfinance institutions in Indonesia, with transparency and confidentiality emerging as the most powerful drivers of financial resilience. The findings demonstrate that a Sharia governance framework constitutes the second most influential factor, while the Sharia board's role and procedural consistency exert progressively weaker, yet still significant, negative effects. Critically, however, the results deliver a stark warning: excessive procedural rigidity and an overly stringent Sharia board mandate are counterproductive, actively diminishing financial resilience. This finding underscores a fundamental imperative for governance systems to strike a delicate but essential balance between uncompromising rule adherence and strategic flexibility. Notably, the insignificant association of board-level characteristics, such as individual skill and independence, with financial resilience powerfully suggests that systemic, institution-wide governance structures, rather than individual attributes, are the true determinants of resilience in the unique context of Islamic microfinance.

AUTHOR CONTRIBUTIONS

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