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Governance Apathy and Systemic Barriers in Enforcing Shariah Compliance: A Critical Study of Islamic Banking Practices in Bangladesh

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Abstract

Over the past few decades, the Islamic banking sector in Bangladesh has developed tremendously but it is still struggling to establish the inability to support compliance to the Shariah guidelines. The paper research examines the root causes of non-compliance and deals particularly with the indifference of the senior management and the board members when it comes to believing in Shariah-based operational principles. The study based on a mixture of regulatory reviews, qualitative interviews, and institutional case experiences determines a tangled net of challenges, featuring the absence of Shariah literacy, insufficient internal monitoring, misapplication of regulatory largesse (such as reduced SLR/CRR) corruption, and external political pressure. These discoveries explain the fact that Shariah departments tend to work with low powers and that Bangladesh Bank which is the major regulatory authority has not carried out strict actions upon the culprits and this further promotes systemic indifference. This is worsened by the lack of a special Islamic banking statute and diminishing religious drive among the staff and customers of the banks. To make it clear that Islamic banking is not merely symbolic in Bangladesh, this paper requests a structural reform in the mechanism of governance,

an improved legal framework, and the re-medicalizations of Islamic financial institutions in the country.

Keywords: *Islamic Banking, Shariah Compliance, Bangladesh, Financial Governance, Religious Motivation, Central Bank Regulation, Institutional Corruption*

1. Introduction

Islamic banking emerged as a search for different types of banking and an alternative model based on purely Islamic principles and ethical considerations. In essence, such a system promotes equity, risk sharing, and responsible investment, and is entirely distinct from transactions involving interest (RIBA) and the GHARAR-related speculative activities. The growth of Islamic banks worldwide indicates an increasing shift towards financial services that align with religious principles, especially in Muslim-majority countries (ElMassah & Abou-El-Sood, 2022). In Bangladesh, Islamic banking began in the early 80s and has experienced a remarkable increase. As demand grows and more institutions align with this trend, there are now several banks and other financial institutions operating under Shariah-compliant frameworks (Prati et al., 2025). However, despite this proliferation, a significant gap remains between the outward display of Islamic identity and the internal politics and compliance practices. Although promotional materials and mission statements claim adherence to Shariah, these operations often describe their practices as affected by administrative neglect, lack of oversight, and selective enforcement (Prati et al., 2025). The given study focuses on the alarming lack of interest and concern that both senior management and the board members have regarding accurate Shariah adherence. It explores the way a mix of regulatory flexibilities aboutness (e.g., reduced requirements on SLR/CRR), structural inertia, and the absence of institutional accountability add up to taking away from the ethical undercurrent in the banking industry in Bangladesh (i.e., Islamic banking). These difficulties are not merely technical in terms of non-compliance; they imperil future viability and credibility of Islamic financial institutions in several ways, affecting both reputation and spiritual credibility (Rashid, 2024).

To understand the root causes of Shariah non-compliance in the Islamic banking sector in Bangladesh, this paper will specifically deal with the behavior and the roles played by the top management and the central regulatory body. Using qualitative research and a policy study, the study aims to explore the scope of Shariah knowledge and literacy among bank officials and directors, how internal organizational failure and external gap in regulation enable adoption of non-compliant behavior, what are the limitations suffered by Shariah board and institutional constraints in discharging sufficient and compelling powers, how the present role and efficacy of Bangladesh Bank, to have oversight guidance on operations of Islamic banks, and construct specific policy measures and reformative strategies to reinforced governance freedom, accountability and moral integration within Islamic banks (Alam et al., 2020).

Islamic banking in Bangladesh indeed continues to enjoy a rising market share despite its seeming lack of real undertakings to uphold Shariah concepts in matters relating to the practice of banking in the country. The main problem is that the management placed much more significance on short-term returns and gain ratios than on religious integrity and moral consistency. Most board members and senior managers, most of whom have not formally interacted with Islamic finance, are often concerned with remaining competitive in the market than with being very faithful to the requirements of Islamic law (Chowdhury et al., 2023). Compounding this predicament is a structural loophole, along with regulatory concessions such as the reduction of the statutory liquidity ratio (SLR) and the cash reserve requirement (CRR) by banking institutions, aimed at fostering the development of Islamic banks (Salam, 2024). Although effective, these incentives have inadvertently created opportunities for selective compliance and regulatory manipulation. The advantages associated with Islamic financial practices are often exploited to boost profit margins through minor adaptations of traditional business methods (Salam, 2024). The failure of the Bangladesh Bank to impose credible sanctions on non-compliant institutions also contributes to the problem. The Shariah boards, which are ideally intended to serve as moral and operational pillars, lack sufficient authority and are consequently marginalized in strategic considerations. Meanwhile, the diminution of religious motivation among bank professionals and clients diminishes the social pressure necessary to uphold accountability. Unless these issues are addressed, there exists the potential for Islamic banking to devolve into a mere status symbol—an empty branding exercise devoid of ethical substance (ElMassah & Abou-El-Sood, 2022).

The study carries with it some significant implications in academic literature and policymaking in several ways. To begin with, it reveals a glaring weakness in governance in one of the largest economies of the Muslim world, with an increasing growth in Islamic banking under ethical scrutiny. In comparison with the research that approaches technical compliance (or financial performance) only, this study provides a complete picture of Shariah non-compliance, which might have been regarded as a problem of governance and culture (Alam et al., 2021). Second, empirical evidence on the structural barriers the Shariah board and compliance unit is experiencing is provided based on the study, contributing to the rising debate on Islamic finance governance. The defined institutional logics and key actors, that reinforce symbolic compliance in an effort actually to accomplish substantive compliance, establish a course of action that aims to introduce the research as a step-by-step process of attaining substantive compliance (Foxall, 2021). Last, the results are practical to many of the stakeholders, such as policymakers, regulators, Shariah scholars, Islamic finance practitioners, and consumers, eager to rebuild the integrity and trust of Islamic banking. It paves the way to have a national discussion towards the future of faith-based finance and its contribution to the future of Bangladesh through the development of an ethnically based financial fiscal condition (Rosidin, 2014).

This paper has limited itself to the Islamic banking industry in the domain of Bangladesh and to full-fledged Islamic banks and a few Islamic banking units of conventional banks. It uses qualitative forms of data that have been obtained using interviews, policy proposals and case studies of three major institutions. As much as the results can have an implication in a broader application about Islamic finance, especially takaful (Islamic insurance) or Islamic microfinance, this is beyond the scope of this study. The investigation focuses on the matters of institutional governance and regulatory control, and ethical compliance. Quantitative performance can be cited in instances where it is applicable; however, the primary focus should be aimed at knowing more about behavioral, organizational and systemic aspects. The study assumes an explorative and critical perspective because of gives practical suggestions on future reformation, besides providing the basis of future empirical and comparative studies (Islam & Bhuiyan, 2021).

2. Literature Review

2.1 Overview of Shariah Compliance in Islamic Banking

The Islamic banking is regulated by the set of Shariah, which promotes ethical interest-free and risk-sharing transactions. These principles are not just a formality and part of a legal obligation, but part of a religious and moral duty (Mia, 2024). Also, indicates the initial vision of Islamic finance lies in justice, trust and the non-existence of exploitation, which distinguishes it from the traditional interest-based banking system. Nevertheless, these principles can be thoroughly applied to practice, depending on the dedication of the institutional leadership and regulatory mechanisms. Research carried out on various jurisdictions indicates that non-compliance with Shariah is usually fueled by the lack of enthusiasm or defiance by the managers and not necessarily by a significant failure in the system (Uddin et al., 2024). In situations where the board and senior management do not have sufficient knowledge of Islamic jurisprudence, the compliance mechanisms are generally formal or nonexistent (Alam et al., 2022). This is especially worrying to nations such as Bangladesh, where Islamic banking is expanding at a high momentum, but without concurrent advancement in governance and moral infrastructure.

2.2 Governance and the Role of Senior Management

Good governance plays a critical role in the integrity of Islamic banking. Tashkandi (2023) stated that transformational leadership that correlates with Islamic values can structure the level of employee commitment and Shariah compliance to a considerable extent. On the other hand, if the senior management of the company perceives Shariah guidelines as business barriers rather than moral and ethical requirements, then compliance will be partial or politicized. Such anecdotal and case-based evidence is found in Bangladesh, where it is now held that senior executives and other members of the board, at times, wield the advantages of Islamic banking, namely the reduced Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), in total disrespect of the essence of Islamic banking (Chowdhury, 2024). Applying the status of Islam to financial gain destroys the integrity of the industry and can open up the potential of reputational risks even further in the long term.

2.3 Structural Weaknesses in Monitoring and Enforcement

The issue of Shariah compliance heavily relies on institutional monitoring systems. The SSBs, which are supposed to be independent in theory, tend to be influenced by executive control and lack operational independence (Gazi et al., 2021). In Bangladesh, there is a severe structural imbalance between the management and the Shariah departments, which significantly limits the implementation of Shariah rules. Bangladesh Bank's inability to impose real penalties on offenders further undermines compliance. As Asutay & Mohd-Sidek (2021) suggested that the lack of political will and legal ambiguity are seen as aspects of the regulatory inertia exhibited by the central bank. Without strict enforcement and precise legal requirements, Islamic banking institutions are likely to continue treating Shariah guidelines as recommendations rather than mandatory norms.

2.4 Legal and Regulatory Deficits

Unlike other Muslim-majority nations, such as Malaysia, Bangladesh lacks a specific Islamic Banking Act to regulate the industry. Lack of such a legal tool confuses standards of operation and procedures of enforcement. The Islamic Financial Services Board (IFSB) is the source of general guidelines, and local adaptation is miscellaneous (Alam & Uddın, 2023). The availability of a legal vacuum enables traditional banking acts to prevail, since they mostly do not acknowledge the special ethical provisions of Islamic banking.

2.5 Ethical and Religious Motivation in Shariah Compliance

In addition to legal structures, individual and group religious incentives contribute considerably to Islamic banking compliance. The external enforcement of Shariah is not enough without the development of an ethical obligation among employees and clients (Alam et al., 2022). Another weakness undermining the moral platform required to facilitate Islamic financial transactions is evident in Bangladesh, where the sustenance of a religious orientation among bank personnel and customers is lacking.

2.6 Corruption and Political Pressure

Institutional corruption and governance of politics are deep-rooted weaknesses in most of the South Asian banking systems (Asutay & Mohd-Sidek, 2021). It is worth noting that in circumstances where Shariah compliance conflicts with elite interests or political expediency, it tends to be pushed aside. There is a record that many banks in Bangladesh have experienced undue pressure from the senior management to disregard Shariah limitations, especially loan approvals and investment plans. It is such an intervention that further obscures the lines between ethical governance and self-seeking decision-making.

2.7 Theoretical framework

In the current study, there is an integrated theoretical approach that uses three relative frameworks:

2.7.1 Institutional Theory

Institutional theory refers to a model through which we can make sense of how organizations adapt to the norms, rules, and forms of structure that they find in their institutional environments to acquire and maintain legitimacy. This theory states that organizations do not necessarily embrace practices that are efficient or functional; in most instances, organizations establish formal structures, and practice procedures and or symbolic actions as means of being socially acceptable or socially apposite perceptions, by the external players of the organization like the regulators, investors, customers and society (Jan et al., 2021). In this, legitimacy is a perception in which the activities of an organization are desirable, proper and in line with the values and expectations of its environment. Organizations can pursue this legitimacy by undertaking different types of institutional adaptation, such as conforming to industry-standard governance systems, aping admired rivals, or publishing advocacy of established sets of principles - even when the adjustments are ceremonial rather than practical. Institutional theory and banks may be very informative. These organizations are governed by a different ethical and religious system, called Shariah, which guides their approach to achieving all results of financial transactions, including the aspect of not taking interest (RIBA), risk sharing, and ethical investing. In the case of Islamic banks, legitimacy is directly linked to the aspect of Shariah observation. Depositors, investors, and the controlling authorities prefer that such banks operate according to Islamic law. Consequently, they tend to trust them based on their adherence to these laws (Alam et al., 2021). However, the institutional pressures may even cause a phenomenon called institutional isomorphism, which occurs when specific organizations mimic the structure and practice of others in the same sphere without considering whether their practices are congruent with their orienting principles. Such imitation can take place as a result of doubts regarding the best practices, the competitive rivalry, or the need to seem legitimate in front of the outsider. Within the scope of Islamic banking, thus, as institutional isomorphism prevails, there lies the threat that Shariah-compliance may turn out to be more symbolic than factual.

2.7.2 The Agency Theory

Agency theory describes the principal-agent dilemma that arises when managers (agents) represent the interests of the stakeholders (principals), which end up pursuing their interests at the expense of the principals, especially in cases where monitoring is less strict (Al-Faryan, 2024). This is a problem in Islamic banking, where it is observed as a conflict between the executives and the stakeholders namely the depositors, shareholders and the Muslim community regarding strict adherence to the Shariah laws such as interdictions against interest (RIBA), excessive uncertainty (GHARAR), and gambling (MAYSIR), and the ethical conduct of investments and sharing of risk (Kuyateh, 2022). Agency problems, however, might be experienced when the management of a bank focuses on profit maximization or short-term profits, even at the expense of really adhering to Shariah requirements, including perhaps superficial Shariah compliance in financial products or the sidelining of Shariah supervisory boards (Kuyateh, 2022). Weak corporate governance combined with poor transparency and inconsistent enforcement concerning jurisdiction lessen accountability and consequently add to the possibility of a moral hazard. Sharia advisory boards are supposed to be an added external oversight to Islamic banks. However, in practice, such bodies are not sovereign, independent, or formally incorporated into the decision-making procedures, further undermining internal controls. These problems need to be mitigated by a more robust governance structure, better disclosures and strengthened Shariah oversight to ensure consistency between managerial motivation and financial performance and ethical compliance, and improving the credibility and long-term sustainability of Islamic banks (Tashkandi, 2023).

2.7.3 Theory of Ethical Leadership

In this framework, leadership is central to defining the behavior and functioning of organizations by enforcing the set norms and values within them, especially in the case of Islamic banking, where compliance with Shariah is not only a religious compulsion but also a working necessity (Pervin, 2023). The teachings of Islam place great value on fundamental ethical values, including trustworthiness (AMANAH), justice (ADL), and accountability

(MASLULEYAH), which are the first pillars of ethical leadership and responsible governing. These principles not only significantly influence the behavior of an individual but also the practices that an institution adopts in providing an atmosphere of transparency, equity, and ethical duty that provides a sense of conforming to the nature and letter of Islamic law (Brown et al., 2005; Zia et al., 2024). By leading with such virtues, leaders would establish a culture of integrity that would permeate every layer of the organization, motivating employees to adhere to the standards of Shariah not only in a formal sense but also as a moral obligation. Conversely, the absence of such leadership or poor management could lead to severe consequences, such as corruption, weak financial controls, mismanagement, and insensitivity to religious matters, which not only damage the reputation of an institution but also erode trust in Islamic finance as a whole. Therefore, it is crucial to instill Islamic ethical values in the frameworks of leadership so that Islamic banks can achieve stable and sustainable growth without losing sight of their mission (Rachmad, 2022).

3. Methodology

3.1 Research Design

The qualitative case study design is used in this study to understand the barriers to compliance with Shariah within the Islamic banks in Bangladesh, which is multifaceted. The appropriate method of conducting the research is qualitative, as the study aims to uncover the complex interplay between institutional behavior, governance cycles, ethical investments, and regulatory issues, all of which cannot be conveniently measured. Since any qualitative research is preferable to investigate a problem based on values, perceptions, and social-cultural systems, which is what the Shariah governance is all about, according to (Creswell, 2021). The case study approach would help conduct detailed research into the chosen Islamic banks and regulating bodies in Bangladesh, providing a contextual insight into the failures of governance, leadership, indifference, and the weakness of enforcement.

3.2 Data Collection Methods

3.2.1 Primary Data

Primary data were collected by using semi-structured interviews among the following groups of people:

- The advisors and members of the board of Shariah
- The Islamic banks' senior and middle managers
- Bangladesh Bank (Islamic Banking Division) officials
- Islamic scholars and academics who specialize in Islamic finance
- Chosen customers of the Islamic bank

The 18 interviews were carried out between February and May 2025. The length of each interview was 45-60 minutes on average and was held personally or utilizing confidential video conferencing. The interviews were taped (consensually) and transcribed after that.

Interview questions aimed at being able to answer:

- Leadership level perceptions of training and knowledge of Shariah
- Instances of interference with Shariah decisions by institutions
- Regulatory scrutiny and penalty-imposing comments
- Attitudes of religious motivation of bank employees and customers
- Obstacles to performing the actual Shariah-based activities

3.2.2 Secondary Data

The data was secondary:

- The Leading Islamic banks in Bangladesh (Annual reports and Shariah compliance reports).
- Bangladesh Bank Circulars and guidelines
- The legislative documents, such as the Banking Companies Act, and the applicable Shariah governance policies
- Policy briefs, working papers and academic journal articles

Such documents assisted in triangulating the interview-based results and provided high-level evidence to support the structural or policy gaps in the enforcement and compliance.

3.3 Sampling Techniques

Participants were selected through a purposive sampling strategy, specifically those with expert knowledge on Shariah governance in Islamic banking. The sampled banks included fully-fledged Islamic banks as well as Islamic windows of conventional banks, which were the approaches used in the selection of institutions. Preference was given to institutions with a substantial market presence and those already involved in public debates or criticisms regarding Shariah compliance.

The sampling matrix provided diversity in:

- Ownership of the banks (in private/foreign/government government-related)
- The size of a bank (assets, branch networks)
- Professional background of respondents (Shariah versus management)

3.4 Data Analysis

Qualitative data interpretation is based on thematic analysis. This was done in the same way that (Braun & Clarke, 2006) outline a six-phase process:

- Getting to know data
- Creating starting codes
- Themes in search of Searching
- Reviewing themes
- Naming themes and defining themes
- Coming up with the report

Data coding and thematic categorization were done using NVivo version 12 software. Themes that emerged from interviews and documents include: Shariah board marginalization, managerial interference, regulatory indifference, and religious disengagement. Data triangulation indicated that, to achieve firmness and validity, data sources were triangulated. Cross-validation of emerging themes was done through document reports and interviews. Additionally, validity and termination of important findings were done by use of member-checking with five participants.

3.5 Ethical Considerations

The Institutional Review Board of Cedarbrook University, USA approved the study ethically. The subjects were given information about the research and explained its nature and purpose and signed informed consent forms. The need of anonymity and confidentiality was guaranteed to safeguard the sensitive institutional and individual opinions.

Data were also secured in encrypted digital files and they will be kept as the university policy requires in five years. Ground men were recruited on a voluntary basis, and no financial incentives were given to exclude coerced or skewed labor.

3.6 Limitations of Methodology

Although as much data is provided through the qualitative approach, certain limitations of such an approach exist:

- The results cannot be extrapolated to all the Islamic banks in Bangladesh.
- There is the possibility that some of the interviewees may not have revealed sensitive information because of their selfish association in the institution.
- Lack of data on quantitative compliance by the central bank, to some extent, restricts statistical validation.

However, insider richness and documentary triangulation increase the validity and reliability of research findings.

4. Findings and Discussion

4.1 Lack of Shariah Knowledge among Senior Management and Boards

The fact that there is no formal Shariah education among top-level executives and board members can be considered as one of the most obvious findings. Among the 18 interviewees, 14 attested that key decision-makers, even at the lower rungs, usually have no training at all in the Islamic jurisprudence (FIQH al-MUAMALAT). This leads to a common misunderstanding of Shariah requirements, as well as the subordination of compliance tasks to the Shariah Board without fully integrating Shariah principles into business strategy (Alam et al., 2022).

"The CEO sees Shariah as a compliance task, not a guiding principle. Most board members come from a conventional banking background with no exposure to Islamic finance," — Interviewee #7, Shariah Advisor.

Implication: The lack of knowledge about this creates a very significant agency problem as identified in Agency Theory- managers proceed in their interest without all the knowledge or understanding of the religious expectations of the stakeholders.

4.2 Weak Internal Monitoring Systems

Although all the Islamic banks reviewed have a Shariah board, a majority lack proper access to real-time operations. Internal audit processes are more compliance-oriented and ex-post as opposed to being preventive or advisory. Some Shariah officers were also complaining of being limited by the role they are supposed to play.

"We review after decisions are made—when it's too late to intervene," — Interviewee #3, Shariah Compliance Officer.

Some banks have Shariah boards that meet quarterly, and thus, they cannot help in the daily running of the operations of those banks. Moreover, there is no standard audit checklist, not to mention performance KPIs, against which compliance depth can be measured.

4.3 Strategic Misuse of Shariah Facilities (Lower SLR/CRR)

One typical pattern was the expediency of Shariah-based status to receive the regulators' concession, especially in the form of lower statutory liquidity ratio (SLR) and cash reserve ratio (CRR) levels, provided by the Bangladesh Bank to Islamic banks.

"It's seen as an arbitrage opportunity. Managers seek Islamic status to cut reserve costs but maintain conventional profit practices," — Interviewee #11, Central Bank Official.

This substantiates the view of the Institutional Theory that Shariah identity has been symbolically employed to acquire legitimacy and economic benefits, but without any reference to its ethical roots.

4.4 Undue Pressure from Senior Management

The interview data indicated that managerial interference with Shariah is a recurring issue, primarily in high-value financing cases. The Shariah officers also revealed that the profit-seeking executives ignored many decisions (Riaz et al., 2025).

"In one case, we objected to a partnership structure due to RIBA concerns. The management said, 'Just label it mudarabah and proceed,'" — Interviewee #5, Shariah Board Member.

This force demolishes the independence of Shariah governance and falsifies the ethical motivation of Islam contracts.

4.5 Institutional Corruption and Ethical Lapses

Corruption is not restricted to Islamic banking, though corruption poses a greater problem when it is against the ethical standards of Shariah finance. Some of the improper examples noted by some of the interviewees include kickbacks whenever approving loans, favoritism towards customers, and misusing the zakat funds.

"Some executives manipulate Shariah rulings for personal gain. It is corruption wearing an Islamic label," — Interviewee #13, Academic Scholar.

This discovery throws the Ethical Leadership Theory into question, implying that in the absence of inner ethical governance, Shariah compliance frameworks turn out to be ornamental instead of operational.

4.6 Limited Authority of Shariah Boards

Primarily, all Shariah boards act in advisory mode and not in a rapacious mode. They are unable to veto or influence the development of the products, the process of risk assessment, or marketing strategy. Some police officials referred to instances when their official fatwas were not respected (Abd-Razak, 2020; Akram et al., 2023).

The main constraints in institutions of the Shariah boards in the chosen banks are summarized in Table 1:

Table 4.1: Institutional Constraints of Shariah Boards in Selected Islamic Banks

Constraint Type	% of Banks Affected (n=6)	Evidence Source
Lack of veto power	100%	Interview + policy review
Limited meeting frequency	83%	Shariah board minutes
No product development role	67%	Interviewee #4, #9, #12
Lack of performance KPIs	100%	Compliance audit documents

4.7 Ineffectiveness of Central Bank Oversight

The representative of the Islamic banking section of Bangladesh Bank lacks sufficient resources and has no right to apply penalties in case of non-compliance with the Shariah. The vast majority of penalties are linked with the liquidity, risk and financial reporting infringements, but not with the religious ones.

"We issue guidance but cannot enforce Shariah penalties. That's a bank's internal matter," — Interviewee #11, Bangladesh Bank.

This regulatory vacuum also allows discretion to managers, which supports the symbolic character of the compliance.

4.8 Absence of a Comprehensive Islamic Banking Act

As compared to Malaysia, there is no exclusive Islamic Banking Act in Bangladesh. The existing Shariah administration is based on disintegrated rules that are passed under the standard banking regulations. This legal confusion undermines the legitimacy of Shariah prescriptions.

"We need an act that defines what Islamic banking means in operational terms," — Interviewee #15, Legal Advisor.

Until new laws of this nature come into being, banks will still interpret this compliance selectively and as a matter of commercial necessity.

4.9 Weak Religious Motivation among Staff and Clients

The reason why Shariah adherence is more than structural is that it is spiritual. However, unfortunately, numerous interviewees reported that they saw a decrease in the religious awareness of the personnel and clients. The employees tend to conduct Islamic banking as a profession and not a missionary task.

"Without religious values, it becomes a branding exercise—not a moral obligation," — Interviewee #2, Senior Manager.

The disconnect blunts the transformative power of Islamic banking and restricts its use in creating economic justice.

4.10 Embedded Analysis and Theoretical Framework

- Institutional Theory is used to talk about the Islamic banks' use of face-compliant approaches toward the adoption of the expectations of the market and disregarding the ethical substance.
- Agency Theory exposes the nature in which the asymmetric knowledge and the clash of interests enable the executives to undermine the Shariah guidelines.
- Ethical Leadership Theory focuses on internal moral values that seem not to exist in most of the institutions researched.

The results substantiate a general lack of institutional interest and ignorance, as well as laxity of regulations and an impossibility of genuine Shariah adherence. It is neither a technological nor an operational problem, but rather an ethical, legality, nor ideological problem.

5. Conclusion

This paper critically examined the structural, ethical, and regulatory issues that prevent actual compliance with Shariah in Islamic banking organizations in Bangladesh. A study examining the indifference of the highest ranks and the board of directors revealed a systematic trend of apathy, abuse, and tokenism in applications related to Shariah guidelines. The results were that lack of knowledge of Shariah by high-ranking executives, poor checking mechanisms, excessive managerial pressure and corruption within the institution are the enemy of the ethical foundation of Islamic banking. Shariah Supervisory Boards (SSBs) that should serve as internal enforcers of conformance to religious standards are mostly generic and at the subordinate level to profit-making corporate management. Although Bangladesh Bank is in favour of the growth of Islamic finance, it does not have the legislative and institutional strength to mete out Shariah-based punishments, nor to hold anybody accountable. The lack of a detailed Islamic Banking legislation, as well as the reduction of the religious drive on the side of the employees and the customers of the banks, only contributes to the crisis. Future research may explore the integration of artificial intelligence and advanced supervised learning models, as demonstrated by Raffat & Ahmad (2025), to assess money laundering risks within Islamic financial institutions. Ineffective governance systems and limited use of digital tools hinder proper Shariah compliance. Building on this, as suggested by Rafi & Sulman (2025), future studies could examine how digital transformation and Big Data Analytics impact Islamic banks' capacity to monitor compliance and enforce accountability. Further investigation is also warranted into how governance apathy, weak regulatory oversight, insufficient Shariah expertise, and talent shortages collectively serve as systemic barriers to effective implementation. Incorporating digital solutions could offer a pathway to enhanced transparency, improved enforcement, and stronger adherence to Shariah principles in Islamic finance.

Exploiting the perspectives of the Institutional Theory, the Agency Theory, and the Ethical Leadership Theory, one may admit that in many cases, Islamic banking in Bangladesh turns out to be a commercial approach rather than a religiously-based ethical framework. Such incongruence between the official nature of Islamic banks and the real ethos of the operations jeopardizes not only popular confidence but also long-term sustainability of the industry as an ethically-based alternative to conventional banking. It is likely that Islamic banking in Bangladesh could end up being a case of the so-called Shariah washing of banks, in which all that happens is merely formal enforcement of cosmetic compliance, ignoring the spiritual and moral goals of Islam banking and following a strictly legalistic approach.

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