International Journal of Advanced Multidisciplinary Research and Innovation

E-ISSN: 3107-6157 editor@ijamri.com

Volume 2, Issue 6, November-December 2026

Shariah Compliance Capability and Institutional Readiness in BRI Islamic Financing: A Mediation-Based Study of Chinese Banks

Albhyri Nasar Ali Mohamed[1], Dr. Amiya Bhaumik[2]

[1]PhD Scholar, Lincoln University College. Malaysia
Email id: albhyri@lincoln.edu.my
ORCID: 0009-0003-6039-0055
[2]President (Chancellor), Lincoln University College
Email id: amiya@lincoln.edu.my
ORCID ID- 0000-0002-9188-2269

Abstract

This study explores the relationship between internal banking capabilities and institutional context on shariah compliance capability and the perceived performance of Islamic financing in the Belt and Road Initiative (BRI). A cross-section survey data of 300 valid responses was analysed using MS Excel. Descriptive statistics, Cronbach's alpha, Pearson correlations, multiple regression and 5,000-resample bootstrap mediation analysis were used. Reliability was acceptable for all of the constructs (α = 0.882-0.892). The results showed that Shariah compliance capability was positively predicted by internal capabilities (β = 0.467) and institutional context (β = 0.438) and accounted for 46.7% of the variance. The ability to be shariah compliant resulted in a positive prediction (β = 0.428) on performance in financing and the model of outcome accounted for 51.8 % of the variance of financing performance. Both indirect effects were supported: internal capabilities (B = 0.199, 95% CI [0.144, 0.261]) and institutional context (B = 0.194, 95% CI [0.141, 0.252]). Results suggest that there is some partial statistical mediation, and that compliance capability may be a potential organisational mechanism to explain the relationship between resources and institutional conditions and reported financing outcomes.

Keywords: BRI; Islamic financing; Shariah compliance; institutional context; Chinese banks; mediation.

1. Introduction

The Belt and Road Initiative (BRI) has seen a rise in international financing activities by Chinese banks, which have to deal with varying legal, regulatory and market conditions. Studies suggest that the BRI induced banking globalisation impacts on the creation of liquidity in Chinese Banking [1]. Condition of institutional quality also influences the link of BRI participation and outward foreign investment [2]. These conditions have specific relevance in the context of financing where finance has to be structured in line with the Islamic principles.

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

Shariah compliant financing is not only the access to capital. Banks require the necessary human resources, screening mechanisms for transactions, governance structures, and knowledge of the requirements of the country in which they operate. Cross country studies show that corporate governance is correlated with disclosure of Shariah compliance [3]. There is, however, limited evidence to show that organisational capabilities and external institutional conditions of Chinese banks affect the performance of financing under BRI through their Shariah compliance capability.

This study thus examines the direct relationships between Internal Capabilities, Institutional Context and Shariah Compliance Capability and Financing Performance as well as two indirect relationships. It provides an explanation of the readiness of Shariah compliance in BRI financing in an integrated manner that is operationally oriented. The model examines the relationship between organisational conditions and financing outcomes through compliance processes in various types of Islamic financing settings.

2. Literature Review and Conceptual Framework

Internal capabilities comprise Islamic finance expertise, staff training, technical resources and cross-border transaction experience. These resources can be used to assist in implementing the Shariah rules in financing decisions. Virk et al. [4] indicated that there is a relationship between Shariah supervisory expertise and governance arrangements to Islamic bank performance but varies by institutional position. This implies that expert knowledge can be most effective if it is integrated into working organisational processes. Institutional context includes regulatory clarity and Shariah governance infrastructure and BRI related policy support. Alam and Miah [5] found institutional pressures that influence the practices of Shariah governance. However, Kashi et al. [6] concluded that regulatory and normative factors are not positively related to Islamic banks' sustainability performance. There is therefore a need for effective organisation of institutional support. Shariah compliance capability includes the assessment of transaction, monitoring, qualified review and correction of deficiencies. Baig, et al. [7] correlated the attributes of Shariah governance and credit ratings of Islamic banks. The study in Indonesia and Malaysia also shows that the relationship between Shariah governance and operational efficiency varies from environment to environment between institutions [8]. The evidence in Indonesia also relates Islamic governance practices with several aspects of performance [9]. These studies combined suggest that it is reasonable to study compliance capability as an intervening, not just formal, governance mechanism.

The article tests:

H1: Internal capabilities have a positive effect on Shariah compliance capability.

H2: There is a positive influence of institutional context on the ability to become a shariah compliant institution.

H3: Capability of Shariah compliance has a positive effect on the performance of BRI Islamic financing.

H4a: The capability of Shariah compliance plays a mediator role in the relationship between internal capability and performance.

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

H4b: The institutional context-performance relationship is mediated by shariah capability.

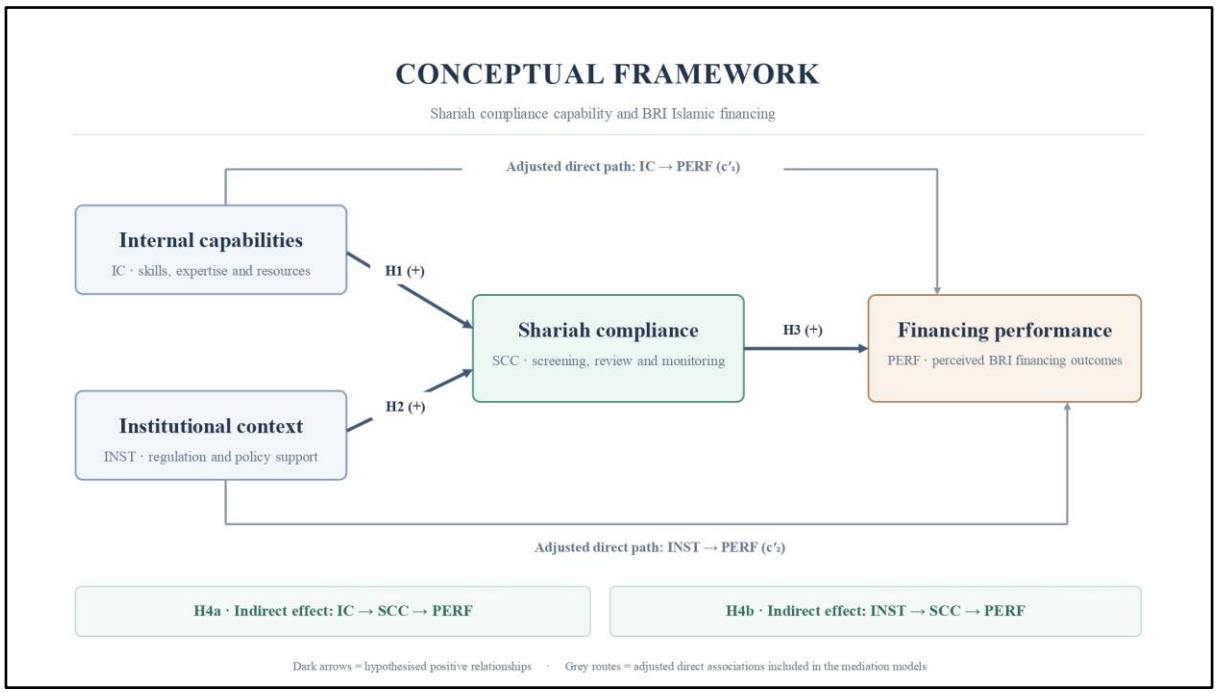

Figure 1. Conceptual framework linking internal capabilities and institutional context to financing performance through Shariah compliance capability, with direct predictor-performance paths.

3. Methodology

The study was conducted using a deductive, quantitative, cross-sectional survey design. The dataset included 300 valid banking-professional responses to the questionnaire that included professional role, professional experience, ownership category, financing activity, and host-country experience. The questionnaire consisted of 16 five-point Likert-type statements (1 = strongly disagree; 5 = strongly agree) comprising four statements on internal capabilities (IC), four statements on institutional context (INST), four statements on Shariah compliance capability (SCC) and four statements on perceived BRI Islamic financing performance (PERF). A composite score was the average of the four items on that score. Data were screened in Microsoft Excel, then descriptive statistics, Cronbach's alpha, Pearson correlation and ordinary least squares regression were performed. PERF was regressed on IC, SCC and INST, SCC was regressed on IC and INST. A model that did not include SCC also estimated for total predictor-performance associations. Unstandardised indirect effects were computed as products of the regression paths, and tested using 5,000 respondent-level bootstrap re-samples. A p value of < 0.05 was used for two-sided regression tests, and mediation was considered supported if the 95% percentile confidence interval did not contain zero. Variance inflation factors and residual diagnostics were studied. Both a-path predictors were included at the same time, and IC and INST were both included in the outcome equation to differentiate indirect from adjusted direct relationship. Complete respondent records for the bootstrap were used, maintaining the correlation among the measured constructs. No items were eliminated from the questionnaire for reliability or significance. Association instead of latent-variable structural equations or causal effects are assessed with these composite-score models.

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

4. Results

4.1 Respondent profile and measurement quality

There were 300 unique completed records with no missing or out of range scale responses. The professional group was highest (26.3%) and state-owned banks represented 45.0% of respondents.

Table 1. Respondent profile (n = 300)

Characteristic	Category	n (%)
Professional role	Banking management	79 (26.3)
	Islamic finance specialist	67 (22.3)
	International financing officer	67 (22.3)
	Compliance/risk management	63 (21.0)
	Other relevant banking role	24 (8.0)
Bank ownership	State-owned	135 (45.0)
Experience	6-10 years	106 (35.3)
Financing activity	Infrastructure financing	132 (44.0)

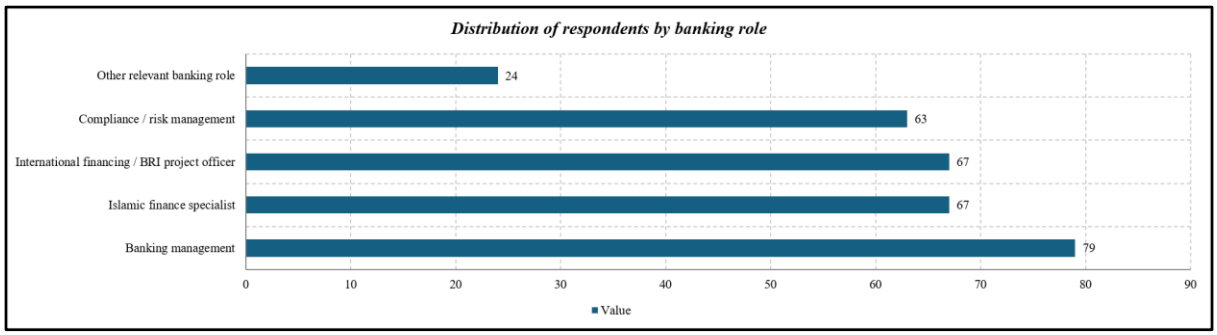

Figure 2. Distribution of respondents by banking role.

Table 2. Descriptive statistics and reliability

Construct	Mean	SD	Cronbach's α
IC	3.095	1.021	0.885
INST	3.096	0.987	0.882
SCC	3.075	0.995	0.886
PERF	3.048	1.019	0.892

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

The reliability coefficients were all greater than 0.70. Constructs were not uniformly high, but were near the neutral scale midpoint.

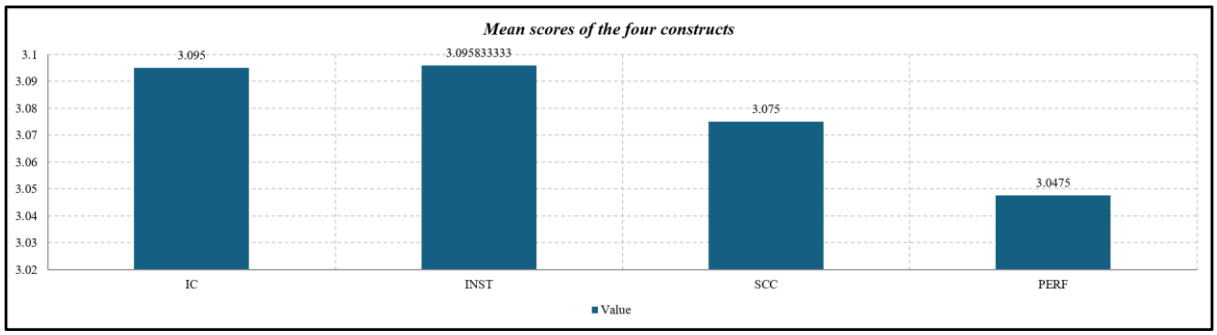

Figure 3. Mean scores of the four constructs.

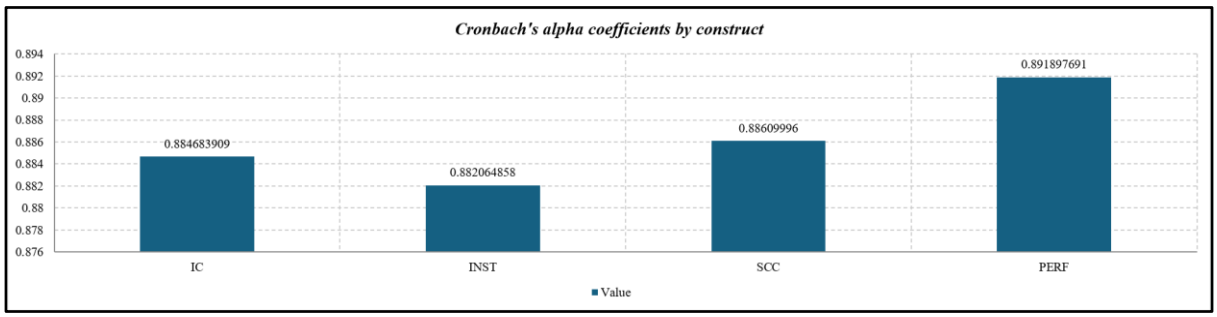

Figure 4. Cronbach's alpha coefficients by construct.

The Pearson correlations were all positive, with SCC being most strongly correlated with PERF ($r = 0.669$, $p < 0.001$).

Table 3. Pearson correlation matrix

Construct	IC	INST	SCC	PERF
IC	1.000			
INST	0.140	1.000		
SCC	0.528	0.503	1.000	
PERF	0.454	0.522	0.669	1.000

Note: All reported off-diagonal correlations were significant at $p < 0.05$.

4.2 Regression and hypothesis testing

The variance of mediators accounted for by the SCC model was 46.7% ($R^2 = 0.467$). Both IC and INST were significant predictors. The PERF model accounted for 51.8% of the variance in outcome ($R^2 = 0.518$). After controlling for both predictors, SCC was still important, providing support for H1-H3.

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

Table 4. Multiple regression results

Path	B	Standardised β	p	Decision
H1: IC → SCC	0.455	0.467	<0.001	Supported
H2: INST → SCC	0.441	0.438	<0.001	Supported
H3: SCC → PERF	0.439	0.428	<0.001	Supported
IC → PERF	0.189	0.189	<0.001	Positive
INST → PERF	0.289	0.280	<0.001	Positive

Note: Outcome-model coefficients adjust for both predictors and SCC.

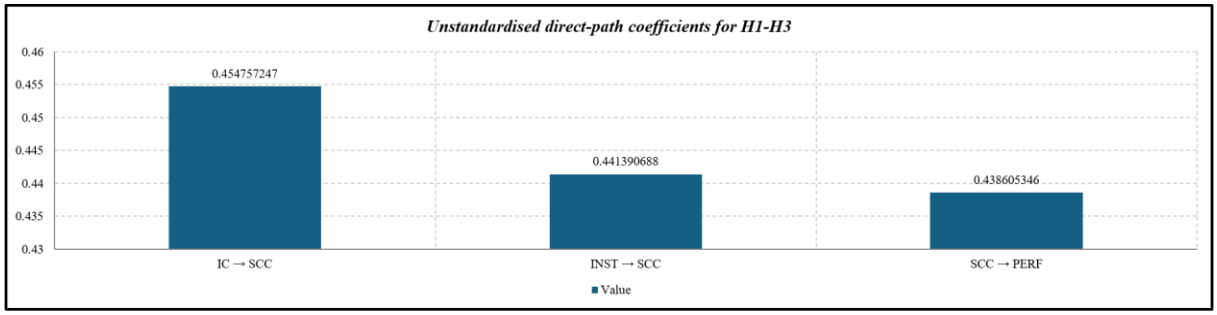

Figure 5. Unstandardised direct-path coefficients for H1-H3.

There was no indication of serious multicollinearity based on outcome model VIF values (1.379-1.876). No, statistically significant heteroscedasticity was detected in the principal models using the residual checks.

4.3 Mediation results

Bootstrapped indirect effects were both positive and did not contain zero within their CIs.

Table 5. Bootstrap mediation results (5,000 resamples)

Hypothesis	Indirect B	95% CI	Decision
H4a: IC → SCC → PERF	0.199	[0.144, 0.261]	Supported
H4b: INST → SCC → PERF	0.194	[0.141, 0.252]	Supported

The mediated proportions were equal to 51.4% and 40.1% for IC and INST respectively. Both pathways were found to be statistically partially mediated as the adjusted direct associations were also statistically significant.

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

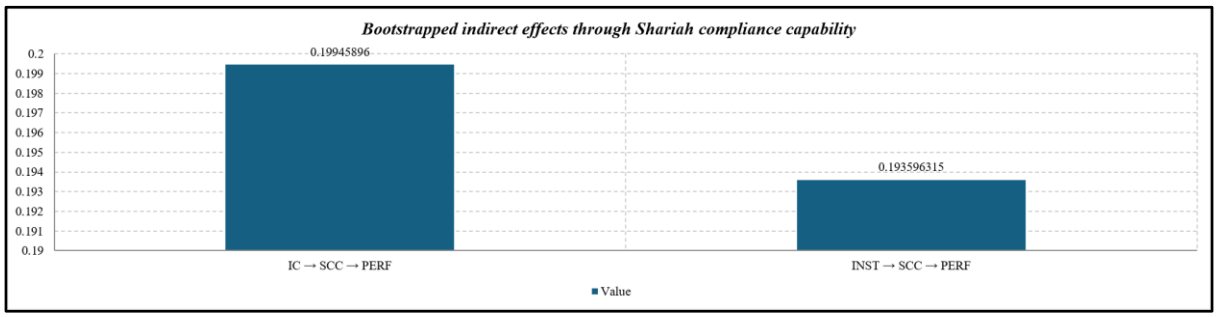

Figure 6. Bootstrapped indirect effects through Shariah compliance capability.

5. Discussion

Results have shown that the capability in shariah compliance is related to the ability of the organisation and institutional support. The IC relationship is in line with the evidence which shows that specialist Shariah knowledge and governance characteristics are important for Islamic banking outcomes [4] [7]. The INST relationship can be compared to the institutional explanation of governance practice [5] with earlier cross-jurisdictional studies cautioning against equating good regulation with good performance [6]. In line with research on the links between governance structure and operating efficiency, and multidimensional bank performance [8, 9], SCC's prediction of perceived financing performance was independent. Most important, the two indirect effects indicate that the process of compliance may be one path by which banks bring organisational resources and external support to the production of effective financing activity. There are still direct associations, so other mechanisms are also involved. The mediation proportions should thus not be interpreted as evidence for the identification of specific percentages of a causal process. The findings indicate that training, qualified compliance review, and engagement with host-country rules, can be potentially valuable priorities for practitioners. The results, though, were self-reported performance and not proven profitability or project returns. Common source measures and undocumented recruitment procedures restrict generalisability and causal interpretations because of the cross-sectional design. It would be helpful to conduct further studies on host country markets to observe objective results and progress over time.

6. Conclusion

A total of 300 respondents were analysed to get a positive relationship between internal capabilities, institutional context and Shariah compliance capability, and a positive relationship between Shariah compliance capability and perceived performance of BRI Islamic financing. Both regression models accounted for 46.7% and 51.8% of the variance, respectively. Both proposed indirect pathways were supported by bootstrap results, showing partial statistical mediation. The results put the operational Shariah capability at the crossroads between internal readiness within an organisation and external conditions within the institution, and emphasise the importance of longitudinal and independently verified evidence of performance. The findings do not suggest that regulatory reform or Shariah training alone would yield better financial results and are consistent with a targeted capability building interpretation.

References

1. Shi, X., Wu, W., Chen, Y. and Wang, C. (2025) 'The real effect of banking globalisation on bank liquidity creation in China's banking sector: Evidence from the Belt and Road Initiative', *International Studies of Economics*, advance online publication. https://doi.org/10.1002/ise3.70019
2. Lin, X., Govindaraju, V.G.R.C. and Baskaran, A. (2025) 'Belt and Road Initiative, institution quality and China's outward foreign direct investments', *SAGE Open*. https://doi.org/10.1177/21582440251398444
3. Abdulrahman, Z., Ebrahimi, T. and Al-Najjar, B. (2024) 'Exploring the nexus between Islamic financial institutions Shariah compliance disclosure and corporate governance: New insights from a cross-country analysis', *International Journal of Finance & Economics*, 29(4), pp. 4590-4612. https://doi.org/10.1002/ijfe.2891
4. Virk, N., Nawaz, T. and Molyneux, P. (2022) 'A canary in a coalmine! Religious agency and its impact on the performance of Islamic banks', *Journal of International Financial Markets, Institutions and Money*, 78, 101559. https://doi.org/10.1016/j.intfin.2022.101559
5. Alam, M.K. and Miah, M.S. (2024) 'Do Islamic banks use institutional theory in the light of Shariah governance? Empirical evidence from a Muslim dominant country', *Heliyon*, 10(2), e24252. https://doi.org/10.1016/j.heliyon.2024.e24252
6. Kashi, A., Laallam, A., Nomran, N.M., Abumughli, A.A. and Al-Binali, T. (2024) 'Do institutional environment and corporate governance structures determine Islamic banks' sustainability performance? Evidence across key jurisdictions in Islamic finance industry', *Borsa Istanbul Review*, 24(6), pp. 1088-1100. https://doi.org/10.1016/j.bir.2024.06.005
7. Baig, M.M., Malik, Q.A. and Ellahi, N. (2024) 'Corporate governance and credit rating of Islamic banks: Moderating role of Shariah governance attributes', *SAGE Open*, 14(2). https://doi.org/10.1177/21582440241247386
8. Fajar, A., Sukmadilaga, C., Suharman, H. and Akbar, B. (2026) 'The effect of shariah governance and internal control on operational efficiency: Comparative institutional insights from Islamic banks in Indonesia and Malaysia', *Cogent Business & Management*, 13(1), 2670882. https://doi.org/10.1080/23311975.2026.2670882
9. Lestari, I.P., Hanafi, M.M. and Wardhana, L.I. (2025) 'Sustainability-based Islamic corporate governance and Islamic banks' multi-performance: Evidence from Indonesia', *Journal of Islamic Monetary Economics and Finance*, 11(4), pp. 743-778. https://doi.org/10.21098/jimf.v11i4.2927

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

Appendices

Appendix A: Research Questionnaire

Title: Shariah Compliance Capability and Institutional Readiness in BRI Islamic Financing: A Mediation-Based Study of Chinese Banks

Purpose: This questionnaire examines the relationships between internal banking capabilities, institutional context, Shariah compliance capability and BRI Islamic financing performance.

Participation is voluntary. Responses will be used for academic research and reported in aggregated form. No personal names or identifying bank information are required.

Eligibility screening: Have you been professionally involved in, or had substantial professional knowledge of, Islamic financing activities associated with the Belt and Road Initiative (BRI)?

- Yes
- No

Only eligible respondents should proceed.

Section A: Respondent Profile

D1. Professional role

- Banking management
- Islamic finance specialist
- Compliance / risk management
- International financing / BRI project officer
- Other relevant banking role

D2. Banking experience

- Less than 3 years
- 3-5 years
- 6-10 years
- More than 10 years

D3. Bank ownership

- State-owned bank
- Joint-stock commercial bank
- Other commercial bank
- Other / Prefer not to disclose

D4. Main BRI financing activity

- Infrastructure financing
- Energy financing
- Trade financing
- Other financing activities

D5. Primary host-country market experience

Country or region: _____

Section B: Quantitative Survey Statements

Indicate your level of agreement with each statement based on your professional experience.

Five-point Likert scale:

1 = Strongly Disagree

2 = Disagree

International Journal of Advanced Multidisciplinary Research and Innovation
E-ISSN: 3107-6157 editor@ijamri.com
Volume 2, Issue 6, November-December 2026

3 = Neutral
4 = Agree
5 = Strongly Agree

Construct 1: Internal Capabilities (IC)

Code	Statement
IC1	Our bank has sufficient expertise in Islamic financing principles.
IC2	Our bank provides adequate Islamic finance training to relevant employees.
IC3	Our bank possesses the technical resources needed to structure Islamic financing transactions.
IC4	Our bank has relevant experience in managing cross-border financing activities.

Construct 2: Institutional Context (INST)

Code	Statement
INST1	Regulations in the relevant host-country markets provide clear guidance for Islamic financing.
INST2	Relevant host-country regulatory authorities provide adequate support for Islamic financing activities.
INST3	Shariah governance arrangements in the relevant markets facilitate Islamic financing operations.
INST4	BRI-related institutional policies facilitate the implementation of Islamic financing transactions.

Construct 3: Shariah Compliance Capability (SCC)

Code	Statement
SCC1	Our bank systematically evaluates financing transactions against Shariah requirements.
SCC2	Our bank has established procedures for monitoring Shariah compliance.
SCC3	Qualified personnel review potential Shariah compliance issues in financing transactions.
SCC4	Our bank can effectively identify and address Shariah compliance deficiencies.

Construct 4: BRI Islamic Financing Performance (PERF)

Code	Statement
PERF1	Our bank's BRI Islamic financing activities generally achieve their intended financing objectives.
PERF2	Our bank's BRI Islamic financing activities have improved access to financing opportunities.
PERF3	Our bank's BRI Islamic financing transactions are implemented efficiently.
PERF4	Our bank effectively manages the financial risks associated with BRI Islamic financing activities.

Total: 16 Likert-scale statements, 5 respondent-profile questions and 1 eligibility question.