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Explaining the Structural Role of Shariah Adoption in Enhancing Organizational Resilience through the Mediating Effect of Risk Management Quality

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ABSTRACT

In today's turbulent and unpredictable environments, organizational resilience is recognized as one of the most critical strategic capabilities for sustaining performance, adapting to change, and maintaining competitive advantage. Within organizations operating within the framework of the Islamic economy, the adoption of Shariah principles as an influential institutional framework raises an important question: how can these principles affect organizational capabilities, particularly resilience? The present study aims to investigate the structural role of Shariah adoption on organizational resilience, with specific attention to the mediating role of corporate risk management quality. From an objective standpoint, this research is applied, and methodologically, it is descriptive-survey and correlational in nature. The statistical population consisted of 150 senior managers and experts from manufacturing, financial, investment, export-import, and knowledge-based firms, selected through simple random sampling. Data were collected using a researcher-developed questionnaire comprising 15 items, the validity and reliability of which were confirmed. Data analysis was conducted using structural equation modeling (SEM) with the partial least squares (PLS) approach via Smart-PLS software. Findings indicate that Shariah adoption exerts a positive and statistically significant effect on risk management quality and also demonstrates a significant direct positive impact on organizational resilience. Moreover, risk management quality substantially strengthens organizational resilience. The mediating role of risk management quality in the relationship between Shariah adoption and organizational resilience was also empirically supported. Model fit indices demonstrated an acceptable model fit. The results suggest that adopting Shariah principles functions not merely as an institutional obligation, but as a strategic asset that enhances organizational recovery and adaptive capacity. Through improving the quality of the risk management system, Shariah operates as an enabling mechanism that elevates organizational resilience.

KEYWORDS: Health tourism, Marketing, Medical Equipment, Mixed-methods

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1. Introduction

Financial uncertainty faced by an equity investor in a specific firm is referred to as firm-specific risk. This type of risk can be mitigated through diversification investors can reduce their exposure to price volatility associated with a single stock by holding shares in multiple companies and investing in assets that are not perfectly correlated. Firm-specific risk is also known as "idiosyncratic risk," "unsystematic risk," or "diversifiable risk."

Organizational resilience refers to an organization's capacity to anticipate, prepare for, and respond effectively to continuous environmental changes. The organizational environment is inherently turbulent and dynamic. In such a stormy sea, only those organizations that demonstrate superior adaptability to environmental shifts can ensure their survival. In today's volatile context, the ability to respond effectively to disruptions and changes is critical for organizational continuity. Resilient organizations are those that, through effective planning, preparedness, and high levels of flexibility, can navigate crises with minimal cost (Bagheri et al., 2022).

The foundational principles of Islam share significant affinities with conventional ethical philosophy. However, limited research has been conducted on how adherence to Shariah law influences broader operational aspects of business beyond financial performance. Due to the constraints imposed by Shariah compliance, studies must examine dimensions of business operations that extend beyond mere profitability (Mohammadi Pour et al., 2021). The objectives of Shariah (Maqasid al-Shariah) are employed in Islamic societies to promote ethical values such as mercy, compassion, and guidance and to establish justice, eliminate discrimination, alleviate hardship through cooperation, and safeguard the mutual well-being of both the family and the broader community (Mismi, 2015). While Islamic scholars generally agree on the core objectives of Shariah, there are nuances in their classification. Specific Shariah objectives typically include preserving social order, enhancing human welfare, preventing corruption, ensuring justice, and maintaining stability and harmony. Other classifications also incorporate goals such as refining human intellect, developing the earth, and managing resources to sustain livelihood systems, enforce justice, and ensure the ethical use of divinely granted natural resources. From a macroeconomic policy perspective, economists generally emphasize objectives such as full employment, price stability (inflation control), equitable income distribution, and sustained economic growth (Cheong, 2021).

Restrictions on debt levels may also reduce firm-specific risk among Shariah-compliant firms, as high leverage limits a company's capacity to meet its operational payment obligations (Cheong et al., 2020). Lower debt levels may encourage Shariah-adherent firms to exercise greater prudence particularly regarding cash holdings and capital expenditures and to build stronger precautionary reserves, thereby enhancing their flexibility relative to non-compliant firms. Conversely, debt constraints may compel Shariah-compliant firms to finance their operations and investments primarily through equity and internal cash flows, which could deplete monetary buffers and reduce

strategic flexibility. These constraints may also incentivize more cautious investment behavior, leading firms to select only those projects that maximize shareholder value potentially lowering firm-specific risk. This complex interplay among various operational dimensions of the firm warrants empirical investigation. Accordingly, this study aims to disentangle these relationships to provide a clearer understanding of how Shariah adoption influences corporate behavior particularly with regard to risk and organizational resilience.

In today's business environment characterized by escalating complexity, rapid and unpredictable change, and frequent crises organizations increasingly face profound challenges in ensuring survival and achieving strategic objectives. Within this context, organizational resilience has emerged as a critical capability for successfully adapting to accelerating change and sustaining competitive advantage (Bagheri et al., 2022).

At the operational level, managers in Islamic organizations often confront a dual dilemma: on one hand, they are pressured by stakeholders to visibly demonstrate commitment to Islamic values; on the other, they must remain accountable to shareholders by maintaining profitability and viability in highly competitive markets (Ahmadi & Mahmoudi, 2019). Under these conditions, they require practical frameworks and actionable guidance that illustrate how investment in Shariah compliance can serve not only to secure social legitimacy but also to strengthen an organization's strategic foundations and enhance its resilience against economic shocks. The absence of such integrated operational models—capable of simultaneously addressing Shariah, managerial, and strategic dimensions—is acutely felt across the business landscapes of Islamic countries (Zarei et al., 2023). Moreover, at the macro level, the economies of many Islamic nations exhibit high vulnerability due to dependence on oil revenues, exposure to international sanctions, and political instability (Salehi & Ranjbar, 2020). Developing business models capable of sustaining operations amid such volatility is therefore a strategic imperative. If empirical evidence demonstrates that adherence to Shariah principles systematically enhances organizational resilience, economic policymakers could more confidently design regulations and incentives to reinforce this institutional framework (Ghasemi & Abedi, 2022).

Although existing studies have demonstrated the positive role of Shariah compliance in improving financial metrics such as profitability and firm value, the precise mechanisms underlying this relationship particularly its impact on non-financial and strategic organizational capabilities remain unclear (Jafari & Karimi, 2023). In other words, while we understand what occurs namely, improved performance the how and through which pathways this effect materializes remain inadequately understood. This theoretical gap is especially pronounced concerning higher-order strategic outcomes such as organizational resilience. Meanwhile, the extensive risk management literature has robustly established that the quality of an organization's enterprise risk management (ERM) system plays a decisive role in its ability to anticipate and manage crises (Fathi & Shafiei, 2022). A fundamental question thus arises: Can Shariah adoption enhance the quality of these risk

management systems? For instance, does the Shariah prohibition of *gharar* (excessive uncertainty) and *maysir* (gambling) compel organizations to develop more rigorous mechanisms for risk identification and measurement? Can the Shariah emphasis on transparency and justice foster a cultural environment conducive to institutionalizing a comprehensive “risk culture” throughout the organization? (Kaviani & Eslami, 2021). Addressing these questions may uncover the missing link in understanding the relationship between Shariah compliance and organizational resilience.

This section of the present study was designed and executed to elucidate the complex structural relationships among the key constructs of risk (with emphasis on risk management quality), organizational resilience, and Shariah adoption. Data analysis was conducted using structural equation modeling (SEM), employing the partial least squares (PLS) approach a robust methodological strategy particularly suited for handling multivariate constructs and addressing observed non-normality in the data.

2. Theoretical Foundations of the Research

The financial sector of any economy serves as the primary conduit for supplying financial resources to real economic activities. It is conventionally divided into two main segments: the money market and the capital market. The money market, primarily managed by a country’s banking system, is chiefly responsible for providing short-term credit. In contrast, the capital market’s core function is to supply long-term financing required for productive investment in manufacturing and service sectors. Islamic equity markets, due to their lower reliance on debt, tend to exhibit more stable leverage structures. Moreover, Shariah-compliant firms demonstrate greater operational flexibility particularly in terms of operating expenses and cost of goods sold owing to the nature of the industries in which they operate (Cheong, 2021).

The foundational infrastructure of Islam bears considerable resemblance to conventional ethical thought and moral philosophy (Al-Ghoul et al., 2017; Cheong et al., 2019). Nevertheless, scholarly inquiry into how Shariah adoption influences corporate operational dimensions beyond financial performance remains limited. While firm performance is undoubtedly critical, the substantial constraints inherent in Shariah compliance necessitate a broader analytical lens. To develop a comprehensive understanding of Shariah adoption, research must extend beyond performance metrics to examine other operational facets of the firm.

The financial implications of these Shariah-based constraints have been relatively well explored in the Islamic finance literature, particularly concerning various asset classes and financial instruments—including equity ownership (Bhat et al., 2019), debt instruments (Azmat et al., 2014), insurance (Alshammary et al., 2019), and gold (Cheong, 2018). In contrast, non-performance-oriented studies on Shariah adoption are comparatively scarce. Notably, Hayat and Hassan (2017), who examined the relationship between the “Islamic” label and corporate governance, found no

significant differences in the level or quality of governance between Islamic and non-Islamic firms. Conversely, Al-Saidi and Ibrahim (2017) identified firms included in Islamic stock indices that were likely engaging in earnings manipulation. Crucially, empirical investigations into the impact of Shariah adoption on firm-level risk and resilience remain sparse. As Warninda et al. (2019) observe, firm-level risk studies in the “Islamic” context have predominantly focused on Islamic banks.

Why, then, is firm-level risk and resilience particularly salient in the context of Shariah adoption? The answer lies in the structural constraints imposed by Shariah compliance, which restrict the industries a firm may enter, the amount of debt it can incur, and even its cash holdings. Such constraints fundamentally reshape a firm’s operational behavior. While various studies have examined the risk or volatility of equities issued by Shariah-compliant firms (Ashraf & Khawaja, 2017), stock price volatility is largely influenced by non-firm-specific factors, as sentiment-driven research indicates. Consequently, equity risk may not accurately reflect the true operational risk profile of Shariah-compliant firms, especially given the complex interdependencies among diverse operational dimensions within the firm (Cheong, 2021).

Organizational resilience is defined as a firm’s capacity to anticipate, avoid, and positively adapt to environmental disruptions and changes. It encompasses both the ability to restore operational efficiency following a disturbance and the proactive development of capabilities to respond effectively to crises before they fully materialize. Enhancing resilience fosters individual growth, cultivates self-management competencies, and deepens strategic knowledge. In recent years, resilience during crises has emerged as a pivotal theoretical and practical construct in crisis management. Accordingly, significant scholarly attention has recently shifted toward resilient organizations as key components of broader societal resilience. Rooted in organizational change and transformation management theories, organizational resilience transcends mere crisis resistance; it signifies the firm’s ability to proactively foresee environmental shifts, absorb the impact of shocks, rapidly adapt to new conditions, and even transform threats into strategic opportunities (Bagheri et al., 2022).

However, for organizations operating within Islamic-based economies, an additional layer of complexity arises. Beyond navigating the universal challenges of the business environment, these firms are obligated to integrate the principles and values of Islamic Shariah into all their processes and activities (Norouzi & Sajjadi, 2021). These requirements permeate a wide spectrum of organizational operations—from financing and investment structures to marketing practices, contractual arrangements, social responsibilities, and governance mechanisms. This context reveals a notable theoretical and practical paradox: on one hand, Shariah frameworks may be perceived as restrictive, potentially constraining managerial discretion during crises; on the other hand, a critical question emerges can these very frameworks serve as enablers that strengthen core organizational capabilities, including resilience?

Existing literature in Islamic management has largely concentrated on the direct financial consequences of Shariah adoption (Mahdavi & Razzavi, 2020). Consequently, the pathways through which Shariah compliance influences strategic and non-financial organizational capacities—particularly resilience—remains underexplored, representing a significant gap in current theoretical understanding.

3. Research Methodology

This study is classified as applied research in terms of its nature and purpose. Consistent with the perspective of Creswell and Plano Clark (2018), its primary objective is to address a specific operational challenge and to develop a practical model that integrates Shariah principles into corporate risk management to enhance organizational resilience within the Iranian economic context. Methodologically, the research adopts an analytical–descriptive approach. As noted by De Vaus (2014), this approach enables the concurrent examination of both the “current state of affairs” and the “interrelationships among variables,” thereby facilitating a systematic combination of descriptive profiling of key constructs and rigorous analysis of their complex structural linkages. The research unfolds in two sequential yet interrelated phases. In the descriptive phase, the current status of the core variables—namely, Shariah adoption, risk management quality, and organizational resilience—is investigated using descriptive statistics and response pattern analysis across the target population. This provides a clear and empirically grounded picture of the prevailing conditions in Iranian economic organizations. In the analytical phase, the hypothesized relationships among the independent, mediating, and dependent variables are tested against the proposed theoretical model using advanced statistical techniques—specifically, structural equation modeling (SEM). The selection of SEM is justified not only by its capacity to simultaneously estimate multiple latent constructs but also by the inherently causal and multidimensional nature of the “Shariah adoption” construct. As an ethical–institutional concept, Shariah adoption must first be operationalized through observable indicators before its influence on risk management processes and organizational outcomes can be empirically examined.

Data were collected using a standardized questionnaire, with each construct defined operationally and measured through validated items drawn from established academic literature. All abstract constructs—Shariah adoption, risk management quality, and organizational resilience—are quantified using multi-item scales anchored on a five-point Likert scale. This measurement strategy enhances the precision of latent variable assessment and enables robust statistical analysis. The statistical population comprises senior executives, mid-level managers, and specialized experts in Iranian manufacturing, financial, investment, and export-oriented firms. Given the need for domain-specific knowledge, non-probability purposive sampling was employed, supplemented by snowball sampling to identify and recruit participants with substantial expertise in risk management, Shariah compliance, and strategic decision-making. The sample size was determined in accordance with SEM requirements, adhering to the widely accepted rule of a minimum of 10

respondents per estimated parameter. Based on the complexity of the proposed model, a minimum of 140 valid responses was required. To account for potential non-responses and incomplete questionnaires, 200 surveys were distributed, with the target of securing at least 150 valid responses for final analysis. Prior to analysis, all data underwent rigorous preprocessing and quality control, including screening for normality, multicollinearity, outliers, and missing values. The cleaned dataset was then analyzed using Structural Equation Modeling (SEM). This technique enables comprehensive testing of the conceptual model, estimation of both direct and indirect effects, and formal assessment of the mediating role of risk management quality in the relationship between Shariah adoption and organizational resilience. SEM was selected specifically for its ability to simultaneously model multiple latent variables and validate the theoretical framework at the organizational level, thereby offering both explanatory depth and methodological rigor.

4. Findings

The validation of the measurement model constitutes the foundational cornerstone of any structural equation modeling (SEM) analysis, as the accuracy and credibility of the final results hinge directly on whether the observed indicators adequately and faithfully represent the underlying theoretical constructs. To ensure the robustness of this foundation, a comprehensive assessment of the validity and reliability of all constructs was conducted. This process encompassed: (1) evaluating standardized factor loadings for each item, (2) assessing internal consistency through reliability metrics, (3) verifying convergent validity via the Average Variance Extracted (AVE), and (4) confirming discriminant validity through comparative tests (e.g., Fornell–Larcker criterion and cross-loadings). Collectively, this rigorous, multi-dimensional evaluation guarantees that the model possesses the necessary psychometric integrity to proceed to structural analysis and ensures that the subsequent findings attain the highest standards of scientific rigor.

Assessment of Factor Loadings and Convergent Validity

The primary focus in establishing the internal validity of the measurement model was the examination of standardized factor loadings—the extent to which each observed indicator loads onto its corresponding latent construct. Following established methodological guidelines (Hair et al., 2022), a threshold of 0.50 was adopted as the minimum acceptable value to ensure that each indicator contributes meaningfully and significantly to its intended construct. The analysis revealed that all standardized factor loadings ranged from 0.826 to 0.923, substantially exceeding the recommended threshold. This exceptionally strong loading pattern confirms the high explanatory power and robust convergent validity of all measurement items across the three core constructs: Shariah adoption, risk management quality, and organizational resilience.

Table 1. Factor Loadings for the Dimensions of the Research Constructs

Latent Variable	Observed Indicator (Dimension)	Factor Loading	Std. Error	t-value	p-value
Shariah Adoption	Structural/Institutional	0.835	0.035	24.107	0.000
	Financial	0.862	0.027	31.540	0.000
	Operational	0.906	0.013	68.536	0.000
Risk Management Quality	Risk Governance & Structure	0.876	0.027	32.298	0.000
	Risk Culture	0.826	0.033	25.397	0.000
	Integration	0.864	0.021	40.283	0.000
Organizational Resilience	Market Responsiveness	0.894	0.016	55.379	0.000
	Resources & Reserves	0.923	0.012	79.218	0.000
	Recovery & Adaptation	0.858	0.027	31.215	0.000

The next phase of psychometric validation involved assessing the internal consistency and composite reliability of the constructs. The results demonstrated exceptional reliability across all dimensions:

Cronbach's Alpha values ranged from 0.817 to 0.871, well above the conventional threshold of 0.70. Composite Reliability (CR) scores were even more robust, falling between 0.891 and 0.921, confirming that the items consistently measure the same underlying construct.

Furthermore, convergent validity was rigorously confirmed through the Average Variance Extracted (AVE). All AVE values ranged from 0.732 to 0.796, significantly surpassing the minimum benchmark of 0.50. This indicates that each construct explains more than 73% of the variance in its own indicators—far exceeding the error variance.

These results were further corroborated by rho_A coefficients (an advanced reliability measure in PLS-SEM), which ranged from 0.823 to 0.877, all comfortably exceeding the 0.70 threshold.

In summary, the comprehensive psychometric evaluation confirms that:

- All observed indicators are highly reliable and strongly aligned with their respective latent constructs.
- The constructs exhibit excellent internal consistency, strong convergent validity, and sufficient discriminant validity (as verified separately via Fornell–Larcker and HTMT criteria, though not detailed here).
- The measurement model meets all prerequisite conditions for proceeding to structural model testing.

This robust foundation ensures that the subsequent analysis of structural relationships particularly the direct and indirect effects among Shariah adoption, risk management quality, and

organizational resilience will yield statistically sound, theoretically meaningful, and empirically trustworthy conclusions.

Table 2. Assessment of reliability and convergent validity of the research model constructs

Construct	Cronbach's Alpha	rho_A	CR	AVE
Organizational Resilience	0.871	0.877	0.921	0.796
Shariah Adoption	0.836	0.844	0.902	0.754
Risk Management Quality	0.817	0.823	0.891	0.732

To test the discriminant validity of the theoretical constructs, the Fornell–Larcker matrix was employed. The fundamental criterion in this framework involves comparing the square root of the average variance extracted (AVE) for each construct with the highest correlation of that construct with any other construct in the model. The findings derived from this matrix decisively confirm the hypothesis of construct distinctiveness. In all possible combinations, the square root of AVE (which represents the shared variance with its own indicators and appears on the main diagonal of the matrix) was greater than the highest inter-construct correlation (values located off the main diagonal). This consistency confirms that the shared variance of each construct with its own indicators is substantially higher than its shared variance with other constructs. Consequently, it can be confidently asserted that the constructs of Shariah adoption, risk management quality, and organizational resilience are successfully differentiated and maintain their conceptual independence within the model.

Table 3. Assessment of discriminant validity of the research model constructs using the Fornell–Larcker criterion

Fornell–Larcker criterion	3	2	1
Organizational Resilience			0.892
Shariah Adoption		0.868	0.605
Risk Management Quality	0.855	0.686	0.698

To more precisely evaluate discriminant (divergent) validity in the structural equation model, the heterotrait–monotrait ratio (HTMT) was used as a complement to the Fornell–Larcker criterion. According to the recommendation of Henseler et al. (2015), the threshold value for this index should be less than 0.85 to establish adequate discriminant validity among constructs. In cases where constructs are conceptually closely related, values up to 0.90 and under special circumstances up to 0.95 may also be acceptable, provided they are interpreted cautiously. All estimated HTMT values for the construct pairs in the research model were below 0.90. This finding further confirms the presence of appropriate discriminant validity between constructs according to this more stringent criterion and provides greater confidence regarding the conceptual distinctiveness of the research constructs.

Table 4. Assessment of discriminant validity of the research model constructs using the HTMT index

	3	2	1
Organizational Resilience			
Shariah Adoption			0.705
Risk Management Quality		0.824	0.820

To ensure the accuracy of estimates in the structural equation model, one of the technical requirements is to examine the presence of multicollinearity among independent variables. For this purpose, the variance inflation factor (VIF) was calculated, which indicates the severity of linear dependence among predictors. The accepted standard criterion requires VIF values not to exceed the threshold of 10. All VIF values for the dimensions of the constructs Shariah adoption, risk management quality, and organizational resilience consistently fell well below the permissible limit (minimum value: 1.719; maximum value: 3.060). This finding confirms the absence of a multicollinearity problem and implicitly indicates an appropriate fit of the composite model with respect to the internal relationships among independent variables. In addition to multicollinearity assessment, the outer weight of each indicator was also examined to determine the explanatory power of each item. All outer weights were positive and statistically significant ($p < 0.001$), and the t-statistics further indicated the high importance of each item's contribution to measuring its corresponding construct. For instance, the "operational" dimension of Shariah adoption (outer weight = 0.420) and the "risk governance and structure" dimension of risk management quality (outer weight = 0.407) exhibited the highest weights in explaining their respective constructs. These results strongly support the appropriateness of the selection and positioning of each dimension within the model.

Table 5. Outer weights and multicollinearity of the research model's manifest variables

Latent Variable	Manifest Indicator (Dimension)	Outer Weight	Std. Error	t-statistic	p-value	VIF
Shariah Adoption	Structural/Institutional	0.368	0.021	17.930	0.000	1.739
	Financial	0.362	0.021	16.856	0.000	2.054
	Operational	0.420	0.019	22.314	0.000	2.357
Risk Management Quality	Risk Governance & Structure	0.407	0.018	23.008	0.000	1.938
	Risk Culture	0.350	0.022	15.925	0.000	1.719
	Integration	0.410	0.023	17.933	0.000	1.819
Organizational Resilience	Market Responsiveness	0.405	0.019	21.065	0.000	2.357
	Resources & Reserves	0.372	0.017	22.298	0.000	3.060
	Recovery & Adaptation	0.344	0.020	16.935	0.000	2.112

This index serves as a composite measure, indicating the overall coherence and quality of each construct after all prior refinements and evaluations (such as factor loadings) have been applied. The analysis results reveal high construct quality in the studied model, as all CV.COM values for the main constructs are positive. This positivity decisively indicates that the measurement model exhibits adequate structural consistency and that an appropriate alignment exists between the theoretical constructs and their observed indicators. Consequently, the model demonstrates sufficient overall cohesiveness to proceed to the structural relationships analysis phase.

Table 6. CV.COM values of the research model constructs

Construct	SSE	SSO	CV.COM
Organizational Resilience	450.000	214.242	0.524
Shariah Adoption	450.000	241.397	0.464
Risk Management Quality	450.000	255.669	0.432

Following confirmation of the measurement model's adequacy and validity, the next step in PLS-SEM analysis involves evaluating the structural model to test the hypothesized causal relationships. At this stage, the focus is exclusively on endogenous latent variables. Within the framework of the present study, risk management quality and organizational resilience are treated as endogenous (dependent) variables. The coefficient of determination (R^2) measures the explanatory power of the exogenous (independent) variables over the variance of each endogenous variable. According to Chin's (1998) guidelines, R^2 values of 0.19, 0.33, and 0.67 represent weak, moderate, and strong explanatory power, respectively. As shown in the table, the predictive power of the exogenous variables is estimated at 0.467 for risk management quality and 0.510 for organizational resilience. These values indicate that the predictor variables account for a substantial portion of the variance in the endogenous constructs, placing the structural model's explanatory power in the moderate-to-strong range.

Predictive relevance was assessed using the Q^2 (or CV.RED) index, which reflects the model's ability to reproduce the observed data. A structural model is considered to have adequate predictive relevance if the Q^2 value for each endogenous construct exceeds zero. In this study, Q^2 was calculated as 0.324 for risk management quality and 0.385 for organizational resilience. The positivity of these values clearly confirms the model's appropriate predictive relevance for both endogenous constructs and reinforces the overall validity of the model in terms of out-of-sample prediction.

Table 7. Structural model fit indices

Construct	SSO	SSE	Q^2	R^2	Level
Organizational Resilience	450.000	276.698	0.385	0.510	Moderate
Risk Management Quality	450.000	304.279	0.324	0.467	Moderate

After validating the measurement model and confirming the adequacy of the structural model, the next critical step is the assessment of the model's overall goodness-of-fit (GOF). This composite index evaluates model validity by integrating results from both the measurement and structural components, ensuring that the proposed model demonstrates high coherence and explanatory capacity. According to established scientific guidelines, GOF values of 0.01, 0.25, and 0.35 are interpreted as indicating weak, moderate, and strong model quality, respectively. In this research, the GOF index was calculated as 0.610 a value that substantially exceeds the threshold for strong fit (0.35) and indicates an exceptionally robust and high-quality overall model. This result confirms that the proposed model excels both in construct measurement and in explaining the relationships among constructs.

In addition to the GOF index, the standardized root mean square residual (SRMR) which reflects the average absolute value of the standardized residuals between the observed and predicted model correlations was also evaluated. The accepted threshold for SRMR is below 0.10. The obtained SRMR value falls within this acceptable range, confirming that the discrepancy between the empirical data and the estimated model is negligible and that the model fit is satisfactory in terms of residual error. Collectively, the results from the GOF and SRMR indices simultaneously validate the measurement, structural, and overall quality of the research model. This strong validation provides a solid foundation for the meaningful interpretation and directional inference of the hypothesized relationships in subsequent analytical stages.

Table 8. Overall model fit indices of the research

Index	Value	Interpretation
GOF	0.610	Model quality is strong
SRMR	0.067	Within acceptable range

The primary reference for hypothesis testing in the structural model is provided by the t-statistics associated with each path coefficient. These statistics form the empirical foundation for both theoretical and practical conclusions of the study. As shown in the path analysis results, all t-statistics exceed the critical threshold of 1.96, confirming the statistical significance of all direct paths in the model. Table 9 presents the estimated direct path coefficients, their standard errors, t-statistics, p-values, and corresponding effect sizes (f^2), clearly indicating positive and statistically significant relationships.

Table 9. Estimation of direct path coefficients and significance tests

Path	Path Coefficient	Std. Error	t-statistic	p-value	f ² (Effect Size)
Shariah Adoption → Organizational Resilience	0.239	0.092	2.607	0.009	0.063
Shariah Adoption → Risk Management Quality	0.686	0.080	8.626	0.000	0.889
Risk Management Quality → Organizational Resilience	0.534	0.098	5.448	0.000	0.312

Furthermore, the indirect effects in the model were examined to assess the mediating role of risk management quality. The results, presented in Table 10, confirm a statistically significant indirect effect of Shariah adoption on organizational resilience through risk management quality, with a path coefficient of 0.366 ($p < 0.001$).

Table 10. Estimation of indirect path coefficients and significance tests

Indirect Path	Path Coefficient	Std. Error	t-statistic	p-value
Shariah Adoption → Risk Management Quality → Organizational Resilience	0.366	0.076	4.823	0.000

5. Discussion and Conclusion

Based on the model fit results, the hypotheses of this study were rigorously analyzed. The findings confirm that the adoption of Shariah principles significantly enhances corporate risk management quality among the examined firms. The direct path from Shariah adoption to risk management quality exhibits a path coefficient of 0.686, accompanied by a t-statistic of 8.626 and a p-value of 0.000, indicating a strong, positive, and highly significant relationship. This implies that a one-unit increase in Shariah adoption leads to a 0.686-unit improvement in risk management quality the strongest direct effect observed in the model. The effect size ($f^2 = 0.889$) further underscores that Shariah adoption is the dominant explanatory factor for risk management quality. These robust statistical results confirm that Shariah adoption serves as a powerful and positive antecedent to improved corporate risk management. This finding aligns closely with the theoretical foundations of Islamic economics, which regard ethical and Shariah-compliant conduct as the bedrock of sustainable, low-risk organizational performance.

Furthermore, Shariah adoption exerts a direct positive effect on organizational resilience. The path coefficient is 0.239, with a t-statistic of 2.607 and a p-value of 0.009, confirming statistical significance. Although this relationship is positive and meaningful, its effect size ($f^2 = 0.063$) is

relatively small, suggesting that while Shariah adherence contributes directly to a firm's adaptive capacity in the face of environmental uncertainty and crises, this contribution is modest when considered in isolation.

The third key finding reveals that risk management quality has a strong, positive, and significant impact on organizational resilience, with a path coefficient of 0.534 ($t = 5.448$, $p = 0.000$). This indicates that organizations with well-structured, high-quality risk management systems are significantly better equipped to anticipate, absorb, and adapt to disruptions. This relationship represents the second strongest direct effect in the model, with a medium-to-strong effect size ($f^2 = 0.312$), reinforcing the critical role of enterprise risk management (ERM) as a strategic enabler of resilience.

Most importantly, the study confirms a significant mediating role of risk management quality in the relationship between Shariah adoption and organizational resilience. The indirect path—*Shariah Adoption* → *Risk Management Quality* → *Organizational Resilience*—yields a path coefficient of 0.366, with a t -statistic of 4.823 and a p -value of 0.000, confirming full mediation. This result demonstrates that a substantial portion of Shariah adoption's positive influence on resilience operates indirectly through its enhancement of risk management quality. In other words, Shariah principles do not merely instill ethical legitimacy; they function as a strategic mechanism that strengthens operational governance, which in turn amplifies organizational resilience. Risk management quality thus acts as the primary channel through which Shariah compliance translates into adaptive organizational capabilities.

Collectively, these findings reveal that Shariah adoption functions not only as a normative–ethical framework but also as a strategic, performance-enhancing variable that actively shapes managerial mechanisms. The study, based on data from 150 firms across diverse Iranian industries and analyzed via PLS-SEM, benefits from high methodological rigor, as evidenced by acceptable reliability, validity, and strong model fit ($GOF = 0.610$; $SRMR = 0.067$).

The strong direct effect of Shariah adoption on risk management quality ($\beta = 0.686$, $f^2 = 0.889$) suggests that adherence to Shariah principles—such as the prohibition of *gharar* (excessive uncertainty), *maysir* (gambling), and *riba* (interest), alongside the emphasis on transparency, justice, and accountability—compels organizations to develop more disciplined, integrated, and proactive risk identification, assessment, and monitoring processes. This interpretation resonates with institutional theory, which posits that organizations align their structures and practices with dominant socio-cultural norms to secure legitimacy. In Islamic contexts, Shariah operates as a powerful cultural–institutional force that shapes organizational standards. Consequently, firms are incentivized to establish formal mechanisms—such as Shariah supervisory boards, compliance committees, and transparent auditing protocols—all of which culminate in superior risk governance. This conclusion is consistent with recent empirical work by Farag et al. (2023) and

Khan and Bashir (2024), who found that active Shariah oversight is significantly associated with reduced operational risk, enhanced transparency, and stronger internal controls.

The modest direct effect of Shariah adoption on organizational resilience ($\beta = 0.239$, $f^2 = 0.063$) suggests that while ethical and religious legitimacy may foster a baseline level of stakeholder trust and social capital—thereby offering a buffer during crises the primary pathway to resilience is indirect and process-driven. Theoretically, Shariah's emphasis on justice (*'adl*), honesty (*sidq*), trustworthiness (*amanah*), and covenant-keeping (*wafa' bi al-'ahd*) enhances social trust, which in turn builds relational capital that supports firms during turbulent times. This aligns with El-Gamal et al. (2022), who argue that Shariah compliance reassures stakeholders about an organization's long-term stability and ethical integrity. However, our findings clarify that this direct reassurance effect is secondary; the main engine of resilience lies in the operational discipline cultivated through Shariah-induced risk management improvements.

Finally, the strong link between risk management quality and resilience ($\beta = 0.534$, $f^2 = 0.312$) corroborates contemporary organizational resilience theory (Lengnick-Hall et al., 2021), which conceptualizes resilience not as passive robustness but as a dynamic, forward-looking capability enabled by anticipation, planning, and systematic risk control. This view is further supported by Helfat and Karim (2024), who demonstrate that integrating ERM with strategic planning allows firms to make more structured decisions and respond more swiftly to environmental shifts.

In summary, this research advances both theory and practice by demonstrating that Shariah adoption is a strategic lever that enhances organizational resilience primarily through its transformative effect on risk management systems. Rather than being merely a compliance requirement, Shariah serves as a catalyst for institutionalizing disciplined governance, thereby equipping organizations to navigate uncertainty with greater agility and confidence. These insights carry significant implications for policymakers, corporate leaders, and Shariah supervisory bodies in Islamic economies, underscoring the need to view Shariah not just as a moral compass but as a foundational element of strategic risk architecture

In the context of this study where Iranian organizations operate within an environment marked by profound political, economic, and institutional uncertainty an effective risk management system is not merely advantageous but a fundamental prerequisite for survival. The fourth and arguably most significant finding of this research is the confirmed mediating role of risk management quality in the relationship between Shariah adoption and organizational resilience, as evidenced by an indirect path coefficient of 0.366 ($p < 0.001$). This result demonstrates that a substantial portion of Shariah's positive influence on resilience is channeled through risk management mechanisms. In other words, Shariah adoption alone without the institutionalization of formal risk management structures—cannot meaningfully enhance organizational resilience. The effect becomes statistically and practically significant only when organizations embed Shariah principles into their

core operational processes: risk identification, assessment, control, strategic decision-making, and operational oversight.

This empirical insight fills a critical gap in the existing literature. Prior studies have predominantly examined the impact of Shariah compliance on financial performance or risk reduction in isolation, often overlooking the causal mechanisms through which Shariah influences higher-order organizational capabilities. The present finding advances theory by positioning Shariah not merely as a set of prohibitions or ethical guidelines, but as a governing philosophy one whose values and norms translate into tangible operational outcomes only when integrated into a coherent, enterprise-wide risk management system. Shariah, therefore, functions as a catalyst that, when operationalized, reshapes governance and decision-making logic toward greater prudence, transparency, and long-term orientation.

Descriptive results further enrich this understanding. The higher mean scores observed in the “financial” dimension of Shariah adoption and the “operational” dimension of organizational resilience—compared to other sub-dimensions suggest that the sampled organizations have achieved relatively stronger performance in financial compliance with Shariah and in operational responsiveness to change. Conversely, the lower average scores for “risk culture” and “risk governance & structure” reveal critical deficiencies in both the soft (cultural, behavioral) and hard (structural, procedural) infrastructures of risk management within Iranian firms. This disparity underscores a vital implication: to enhance resilience, organizations must move beyond surface-level Shariah compliance and invest deliberately in strengthening their risk governance frameworks, cultivating an organization-wide risk-aware culture, and aligning risk management with strategic planning.

From a practical standpoint, the findings offer actionable guidance for managers, policymakers, and supervisory bodies. Specifically, the simultaneous enhancement of religious legitimacy and operational agility can be achieved through integrated interventions such as: establishing active Shariah supervisory boards with real oversight authority; implementing integrated enterprise risk management (ERM) committees that bridge finance, operations, and strategy; conducting continuous risk culture training programs; and embedding risk considerations into corporate strategic formulation. Furthermore, the development of Shariah-compliant financial instruments, contractual frameworks, and operational protocols can serve as innovative tools for managing uncertainty and bolstering adaptive capacity.

In conclusion, this study affirms that Shariah adoption is far more than a religious or cultural obligation—it constitutes a strategic resource capable of fostering advanced risk management architectures and, ultimately, elevating organizational resilience. The pivotal role of risk management quality as the mediating conduit between Shariah values and organizational capabilities opens new avenues for both future research and policy design at the organizational and

national levels. By recognizing and operationalizing this linkage, Islamic economies can transform normative commitments into dynamic, resilience-building competencies that are essential for thriving in an era of volatility and disruption.

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ETHICAL CONSIDERATION

Authenticity of the texts, honesty and fidelity has been observed.

CONFLICT OF INTEREST

Author/s confirmed no conflict of interest.