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The Scope of AI Applications to Tax Evasion in Enhancing Tax Enforcement Capabilities

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ABSTRACT

This study explores the expansive scope of artificial intelligence (AI) applications in enhancing tax enforcement capabilities, specifically targeting tax evasion. Through a survey using Smart PLS version (4) to analyze the data. The study highlights how the scope of AI, which is an Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), can significantly improve the detection and prevention of tax evasion. Findings demonstrate that AI can identify complex patterns of fraudulent activity and predict potential risks more accurately and efficiently than traditional methods. The study also found no statistically significant relationship between integration with existing systems AI and tax evasion in tax enforcement capabilities.

JEL Classification: *H26, H83, C83, O33, L86, & M48*

1. Introduction

Here introduces the paper, and put a nomenclature if necessary, in a box with the same font size as the rest of the paper. The paragraphs continue from here and are only separated by headings, subheadings, images and formulae. Recent years have seen a considerable increase in interest in the field of artificial intelligence (AI) and tax evasion detection, which is indicative of a growing understanding of the potential benefits of cutting-edge technology for improving tax compliance efforts. For governments throughout the world, tax evasion is a serious problem as it reduces income and jeopardizes the integrity of fiscal institutions (Almatarneh, 2023). To address this ongoing problem, tax authorities are relying more and more on artificial intelligence (AI) technology to support their efforts in identifying and stopping tax evasion.

The convergence of the scope of artificial intelligence and tax evasion detection offers a viable approach to augment enforcement capacities and tackle the intricacies involved in detecting fraudulent activity (Badran, 2023, Zaqeeba, & Iskandar, 2020). Artificial intelligence scope, which is the exploration of new AI technologies, Integration with existing systems AI, the overall scope of AI applications, perceived

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scalability of AI, and highlighting of possible cases of evasion more accurately and effectively than they could with conventional techniques. Furthermore, the scope of artificial intelligence helps tax authorities to adjust to changing evasion techniques (Jebril,et al, 2023). This ability to adapt is especially important when dealing with increasingly complex evasion tactics, which frequently take advantage of gaps and weaknesses in the current enforcement frameworks (Jarah, et, al 2023). However, the use of AI in tax evasion detection also brings up significant issues with accountability, transparency, and privacy. Since AI systems require large amounts of data, especially sensitive taxpayer information, data privacy and protection have become critical issues (Zaqeeba, et al, 2024a). Additionally, it is difficult to guarantee justice and equity in enforcement outcomes due to the opaque nature of AI algorithms and the possibility of algorithmic bias (Yalamati, 2023, Jebril, et al. 2024). Despite these challenges, the potential benefits of the scope of AI in combating tax evasion are substantial. By leveraging advanced data analytics and machine learning techniques, tax authorities can enhance their capacity to identify noncompliance, deter fraudulent activities, and ultimately strengthen the integrity of fiscal systems (Zaqeeba, et al, 2024b).

This paper aims to clarify the potential benefits and drawbacks of using AI technology to improve tax enforcement by conducting a thorough analysis of the range of applications in tax evasion detection. This review attempts to give a comprehensive perspective of the revolutionary potential of AI in transforming the landscape of tax compliance and enforcement in the digital era by combining ideas from previous research and scholarly publications.

2. Literature Review and development of hypotheses

Since the introduction of the scope of AI technology, the field of tax evasion detection has undergone a radical transformation, by analyzing key publications in the field. Wang and Wang (2020) provided a new approach to managing personal tax collection that uses artificial intelligence (AI) to improve tax compliance, especially for middle-class taxpayers. Their research demonstrates how AI may be used practically to target particular taxpayer groups, underscoring the technology's potential to increase the efficacy and efficiency of tax administration. Furthermore, Popovič and Sábo (2022) explore the complexities of taxing AI and robotics, addressing the difficulties of classifying and characterizing AI-driven assets for taxes. Their work sheds light on larger socio-economic ramifications by highlighting the legal and regulatory issues surrounding the incorporation of AI in tax policy. However, Kamil's (2022) investigation of the technology's effects on e-filing and digital service tax administration provides insights into the impact of AI scope on tax compliance. Kamil shows how the exploration of new AI technologies may improve taxpayer engagement, expedite tax administration procedures, and increase tax compliance through empirical study. An extensive examination of AI-driven tax automation is given by Rouane (2024), who also offers a thorough study of its prospective applications and ramifications. Rouane explains the revolutionary potential of Integration with existing systems AI in altering tax enforcement paradigms and promoting fiscal integrity through a thorough analysis of the literature and case studies already in existence. Moreover, in their investigation on the use of AI chatbots for income tax prediction in India, Singh and Aggarwal (2023) demonstrate the promise of the overall scope of AI applications for tax administration. Their research highlights the importance of artificial intelligence (AI) technology in raising the precision and efficacy of tax prediction models, opening the door to improved revenue collection and compliance. Savić and colleagues (2022) investigate the application of a hybrid unsupervised outlier detection technique for managing the risk of tax evasion. Their study highlights how AI-based detection systems, which can handle massive amounts of transaction data from several countries at once, have scaling potential. The perceived scalability AI methodology helps tax authorities effectively expand their detection efforts by integrating cutting-edge perceived scalability AI.

By synthesizing insights from these diverse scholarly contributions, this literature review seeks to provide a nuanced understanding of the multifaceted landscape of AI applications in tax evasion detection. Through an Exploration of new AI technologies, Integration with existing systems AI, The overall scope of AI applications, and Perceived scalability of AI of tax enforcement. Based on the above, the following hypotheses will be assumed:

H1: Exploration of new AI technologies in tax evasion detection significantly enhances tax enforcement capabilities

H2: Integration with existing systems in tax evasion detection significantly enhances tax enforcement capabilities.

H3: The overall scope of AI applications in tax evasion detection significantly enhances tax enforcement capabilities.

H4: Perceived scalability of AI technologies in tax evasion detection significantly enhances tax enforcement capabilities.

3. Methodology

This study's purpose is to evaluate the scope of AI applications to tax evasion in enhancing tax enforcement capabilities. The technique entails a methodical approach to data collecting, focusing on pertinent stakeholders to get information on the prospects, problems, and present practices related to the deployment of AI in tax payment monitoring.

Survey design creates a structured survey tool to gather in-depth data about the scope of AI applications to tax evasion in enhancing tax enforcement capabilities. Questions on the overall scope of AI applications, integration with existing systems, exploration of new AI technologies, perceived scalability, and the overall effect on tax payment monitoring were all included in the survey.

The sample is people working in the tax department which consists of tax officials and AI experts. In Jordan, the tax department consists of 30 sections, it was distributed 5 questionnaires for each branch. 142 questionnaires were approved, and 8 questionnaires were excluded out of 150.

The quantitative analysis the collected survey data using the smart pls4 program. This analysis included descriptive statistics to provide an overview of the general trends and patterns in the scope of AI applications in tax evasion.

Based on earlier research on the study's topic, a questionnaire was created. three sections offset the given questionnaire, which was designed with the subject of the current study in mind. The demographic information about the employees—including their gender, age, education, experience, and employees—is included in the first section. The second section comprises 28 independent variables, or scope of AI applications components, each represented by four variables: Seven OSA items ranging from OSA1 to OSA7, six IES items ranging from IES1 to IES6, Seven ENT items ranging from ENT1 to ENT7, and eight PS items ranging from PS1 to PS8. Furthermore, seven questions measuring the TE from TE1 to TE7 are included in the third portion. The first stage looks at the validity and reliability of the variables, and the second stage evaluates hypotheses. Table 1 illustrates this.

Table 1: Demographic characteristics

Gender	Male	97
	Female	45
Age	22 years and younger	12
	23-34 years	59
	35-45 years	55
	46-55 years	13
	More than 56 years	3
Education	Intermediate diploma	19
	Bachelor’s degree	102
	Master	13
	Doctorate	6
	less of Intermediate diploma	2
Experience	Less than one year	12

	From 1 to 5 years	25
	From 6 to 10 years	61
	From 11 to 15 years	32
	More than 15 years	12
Employees	Auditor	16
	Tax accountant	112
	Directorate Director	14

Drawing from the literature review mentioned above, the researchers created the study model seen in Figure 1.

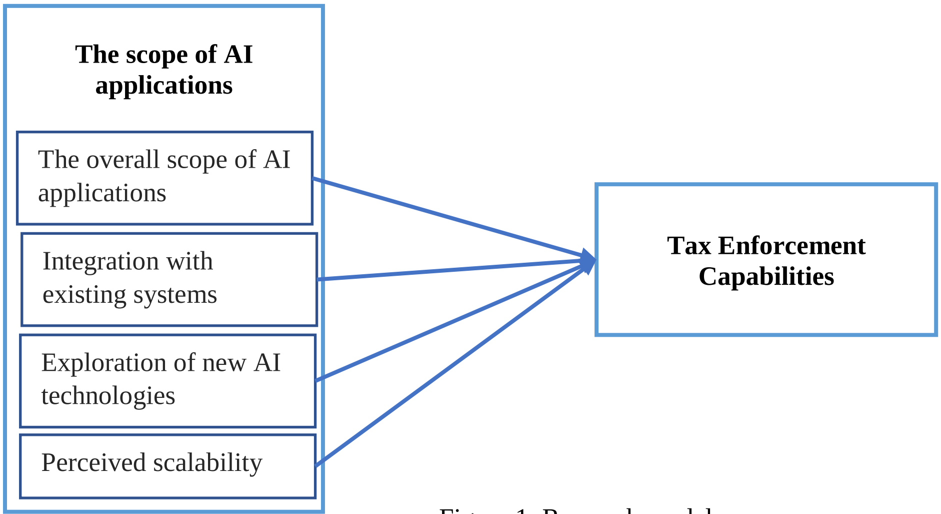


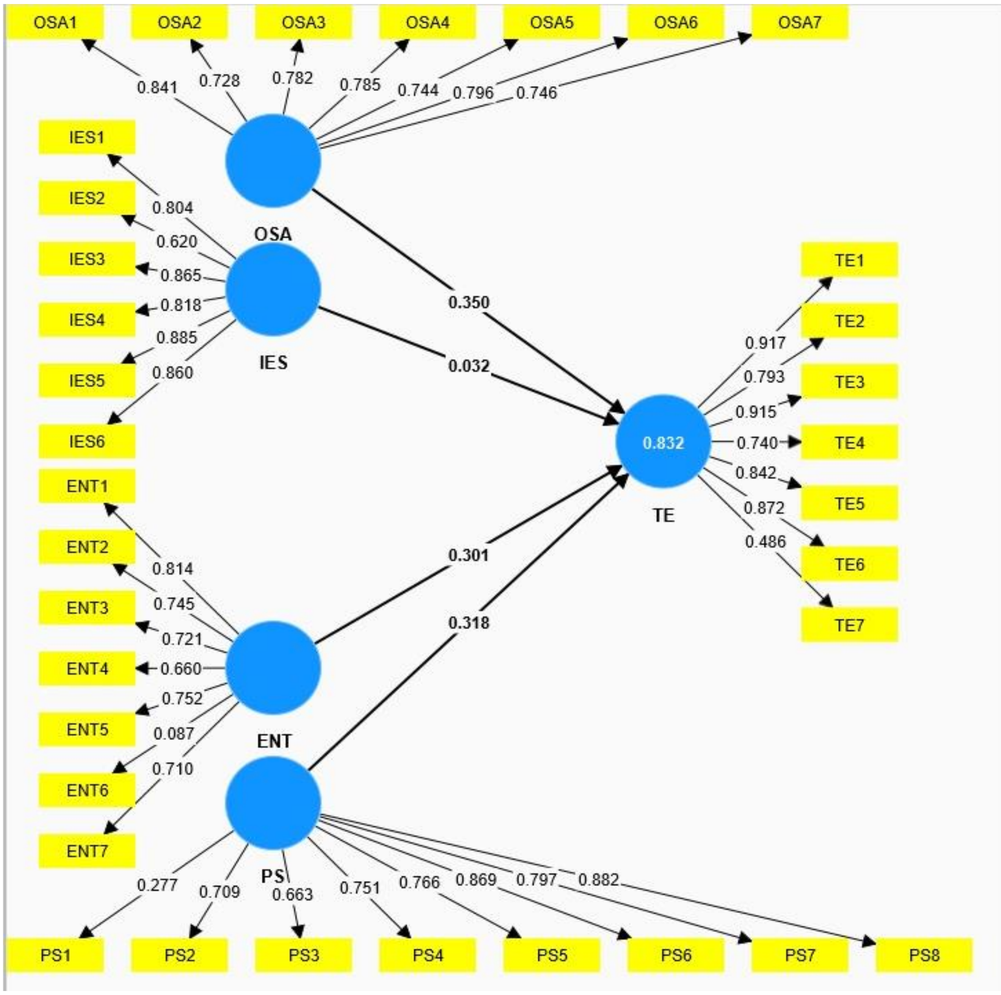
Figure 1. Research model

4. Data Analysis

In this study, two applications of the partial least-squares (SEM-PLS4) approach were made (Anderson and Gerbing 1988). The first step involved determining the validity and consistency of the variables, while the second stage involved evaluating the hypotheses.

4.1 The Standards of Measurement

First, the route loadings are displayed in Figure 2. Furthermore, the factor can be employed for analysis if the factor loading for each element is equal to or higher than 0.70, (Sarstedt, et al, 2021).



Note: Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS).

Figure 2: Factor loadings for the suggested model.

Table 2 shows that factor loadings for all items were higher than the required value of 0.70, except for items (IES2, ENT4, ENT6, PS3, and TE7) that were removed from the scale because of improper loadings.

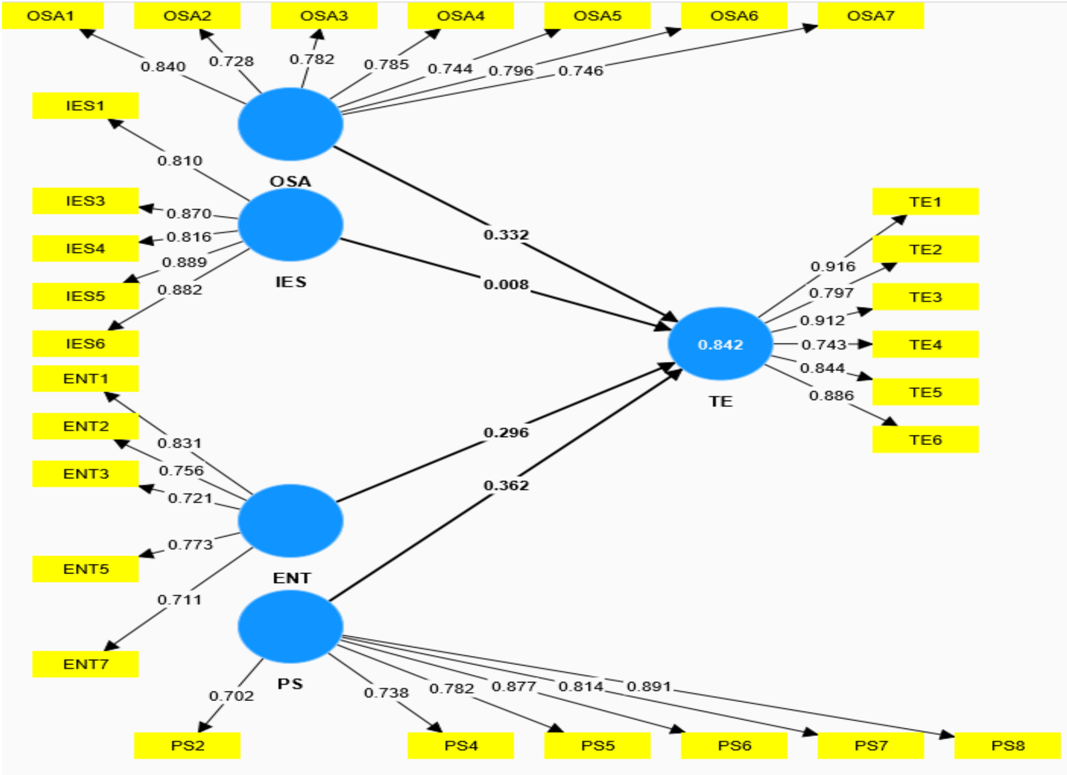
Table 2:

construct	Item	loading (>0.7)	Result
Exploration of new AI technologies (ENT)	ENT1	0.814	Accept
	ENT2	0.745	Accept
	ENT3	0.721	Accept
	ENT4	0.66	Rejected
	ENT5	0.752	Accept
	ENT6	0.087	Accept
	ENT7	0.71	Accept
Integration with existing systems (IES)	IES1	0.804	Accept
	IES2	0.62	Rejected
	IES3	0.865	Accept
	IES4	0.818	Accept

	IES5	0.885	Accept
	IES6	0.86	Accept
The overall scope of AI applications (OSA)	OSA1	0.841	Accept
	OSA2	0.728	Accept
	OSA3	0.782	Accept
	OSA4	0.785	Accept
	OSA5	0.744	Accept
	OSA6	0.796	Accept
	OSA7	0.746	Accept
Perceived scalability (PS)	PS1	0.277	Rejected
	PS2	0.709	Accept
	PS3	0.663	Rejected
	PS4	0.751	Accept
	PS5	0.766	Accept
	PS6	0.869	Accept
	PS7	0.797	Accept
	PS8	0.882	Accept
Tax enforcement capabilities (TE)	TE1	0.917	Accept
	TE2	0.793	Accept
	TE3	0.915	Accept
	TE4	0.74	Accept
	TE5	0.842	Accept
	TE6	0.872	Accept
	TE7	0.486	Rejected

Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), Tax enforcement capabilities (TE).

Secondly, the variables (a1, b5, b6, c1, d7, d8, d9, e1, e2, e4, e5, and e8) were eliminated from the route loadings for the updated model at the beginning since their values were less than 0.70. Refer to Figure 3.



Note: Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), Tax enforcement capabilities (TE).

Figure 3. Factor loadings in the adjusted framework

This investigation looks at the route loadings for the altered model that is displayed in Table 2. Once a route loading exceeds 0.70, it is considered acceptable. Thirdly: the p-value of (0) indicates that accept the result of the Jarque-Bera test, which was performed to verify this assumption in Table 3. The conclusion is that the data is regularly distributed as a result of the acceptance of the alternative hypothesis that the data is normally distributed. Additionally, two of the most popular methods for describing the distribution or forms of the data are skewness and kurtosis. Kim (2013) suggests that the normal value for Kurtosis is less than absolute 7, and skewness is less than absolute 2. Table 3 shows the normality analysis of the variables.

Table 3: Normality analysis

Item	Excess kurtosis<7	Skewness<2	Number of observations used	Cramér-von Mises test statistic	Cramér-von Mises p value
ENT	4.528	-2.032	142	1.435	0.000
IES	3.403	-1.895	142	2.022	0.000
OSA	3.161	-1.811	142	1.687	0.000
PS	3.577	-2.023	142	2.587	0.000
TE	4.83	-2.39	142	3.614	0.000

Note: Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), Tax enforcement capabilities (TE).

Table 3 shows that the kurtosis of the variables is less than absolute 7, and skewness of the variables are less than absolute 2. Because the kurtosis and skewness values are smaller than absolute 2 and 7 respectively, it is evident that the data are regularly distributed.

Fourthly: Table 4 demonstrates how the Fornell–Larcker criterion was used in this work to examine discriminant validity.

Table 4: By using the Fornell-Larcker Criterion, discriminant validity

	ENT	IES	OSA	PS	TE
ENT	0.76				
IES	0.587	0.854			
OSA	0.716	0.413	0.775		
PS	0.758	0.436	0.737	0.804	
TE	0.816	0.477	0.75	0.77	0.852

Note: Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), Tax enforcement capabilities (TE).

Table 4 shows a correlation between exogenous constructs is excellent if it is less than 0.90 and less than 0.85 (Hair et al. 2017). This leads to the achievement of the discriminant validity of complete notions.

The analysis results also showed the R-squared value is 0.842, meaning that the independent variables in this investigation can account for 842% of the variation in the TE.

5. Hypothesis Test

Table 5 presents the results of the hypothesis testing for H1, H2, H3, and H4.

Table 5: The structural path analysis result

Path	Sample mean (M)	Standard deviation (STDEV)	T- value	P values	Effect Beta	Result
ENT -> TE	0.293	0.063	4.704	0.000	0.296	Supported
IES -> TE	0.015	0.053	0.159	0.873	0.008	Not Supported
OSA -> TE	0.331	0.078	4.275	0.000	0.332	Supported
PS -> TE	0.36	0.086	4.192	0.000	0.362	Supported

Note: Exploration of new AI technologies (ENT), Integration with existing systems AI (IES), The overall scope of AI applications (OSA), Perceived scalability AI (PS), Tax enforcement capabilities (TE).

According to Hair et al. (2017), there is a T-value greater than 1.96 between ENT and TE, it is 4.704 in Table 5, which means that it is statistically significant.

A t-value of 0.159 between IES and TE, is less than 1.96 (Hair et al. 2017) in Table 5, which means it is not statistically significant.

A t-value of 4.275 between OSA and TE, is greater than 1.96 (Hair et al. 2017) in Table 5, which means it is statistically significant.

A t-value of 4.192 between PS and TE, is greater than 1.96 (Hair et al. 2017) in Table 5, which means it is statistically significant.

Moreover, the effect beta result is 0.296, indicating that a single change in the ENT produces a 0.296 change in EP.

The effect beta result is 0.008, indicating that a single change in the IES produces a 0.008change in EP.

The effect beta result is 0.332, indicating that a single change in the OSA produces a 0.332 change in EP.

The effect beta result is 0.362, indicating that a single change in the PS produces a 0.362change in EP.

6. Discussion

The scope of artificial intelligence (AI) in identifying tax enforcement capabilities has attracted considerable attention due to its capacity to augment the effectiveness and efficiency of tax evasion procedures. The exploration of new artificial intelligence (AI) technologies in tax evasion detection has opened up innovative pathways for enhancing tax compliance and modernizing tax administration systems. This result was consistent with a study by Yalamati (2023), the investigation of the Exploration of new AI technologies, in particular machine learning techniques, may greatly enhance the detection of fraudulent activity by looking for patterns and abnormalities in large datasets that conventional approaches could miss. Additionally, Saragih et al. (2023) the broader applicability of the exploration of new AI technologies in tax enforcement capabilities beyond mere fraud detection, contributing to overall system efficiency and modernization. Moreover, Adelekan et al. (2024) that the exploration of new AI technologies in data analysis and fraud detection, blockchain's strength lies in creating an unalterable record of transactions, thereby preventing manipulation and enhancing trust in the tax system.

One important area for improving the efficacy and efficiency of tax enforcement capabilities is the integration of artificial intelligence (AI) with current systems for the identification of tax evasion. However, the current study did not find Integration with existing systems of AI in the Jordanian Tax Department. this is due to the difficulties in integrating artificial intelligence (AI) with current tax systems, especially in ensuring that AI tools are interoperable with legacy systems and do not worsen already-existing disparities in tax enforcement (Alm, 2021). Moreover, the organizational and technological difficulties in integrating such hybrid systems, such as the requirement for a strong data infrastructure and the retraining of staff members in properly using AI technologies (Savić et al. 2022). Similarly, Hassan, and Andriansyah (2023) how important it is to handle data security and privacy issues because these are crucial when working with sensitive financial data, with the Integration of existing systems AI

Zaqeeba, et al, (2024a) study was consistent with the results of this study, where the tax authorities' surveillance skills can be greatly improved by the whole overall scope of AI applications (OSA), which makes it possible to discover tax enforcement capabilities schemes with greater accuracy. Artificial intelligence (AI) systems may detect trends and anomalies suggestive of tax enforcement capabilities by utilizing machine learning algorithms and data analytics, this can enhance compliance and minimize the tax gap (Yalamati, 2024). This demonstrates how AI has the ability to revolutionize the tax enforcement industry by enhancing conventional approaches with cutting-edge technology solutions. The overall scope of AI applications poses questions regarding data privacy and the protection of taxpayers' rights, even if it can improve the efficacy and efficiency of tax administrations (Faúndez-Ugalde, et al, 2020). So a well-rounded strategy that guarantees the use of the overall scope of AI applications in tax enforcement does not violate people's rights, pointing out that strong legal frameworks are necessary to prevent abuses. Furthermore, the overall scope of AI applications can help design more complex tax compliance tactics by producing insights from massive databases (Zaqeeba, et al, 2024b). Tax authorities can keep ahead of skilled tax evaders by using AI-driven knowledge generation to predict and resist new evasion strategies. AI-backed proactive strategy improves tax administrations' strategic capacities and helps create more adaptable and dynamic tax systems.

One important element affecting the uptake and efficacy of artificial intelligence (AI) scope in tax enforcement capabilities detection is its perceived scalability. This result was consistent with a study by Savić et al. (2022) By integrating cutting-edge machine learning algorithms with conventional audit procedures, the hybrid methodology helps tax authorities effectively expand their detection efforts. According to Gaozhao, et al, (2024), there are worries over AI's scalability in terms of preserving the quality and customization of services, even if it is thought to be capable of managing massive data processing and producing consistent results. artificial intelligence (AI) to be effective in detecting tax enforcement capabilities, needs to be connected with systems that guarantee accountability, transparency, and user trust all of which are essential for gaining the public's approval and cooperation. Füller et al, (2022) their conclusions are pertinent to tax enforcement capabilities because they highlight how crucial it is to create AI systems that are both technically scalable and flexible enough to adjust to shifting operational requirements and regulatory contexts. To ensure long-term sustainability and efficacy, scalable AI systems for tax evasion detection must be adaptable enough to take into account new data sources, adjust to changing tax evasion strategies, and adhere to legal changes (Zaqeeba, & Iskandar, 2020). Large volumes of data can be handled with improved security through the integration of various technologies, which helps solve some of the scaling issues that standalone AI systems have (Faccia, & Mosteanu, 2019).

7. Implications and Limitations and Future Research

The incorporation of artificial intelligence (AI) in the identification and prosecution of tax evasion carries significant ramifications for tax authorities worldwide. Tax administrations may greatly increase their enforcement powers, raise compliance rates, and close the tax gap by utilizing cutting-edge AI technology.

Nevertheless, there are a number of restrictions and difficulties with using AI in this field that must be resolved. Large volumes of data may be processed and analyzed by AI technology much faster and with greater accuracy than by human auditors. By identifying trends and abnormalities that traditional approaches can overlook, artificial intelligence (AI) can detect fraudulent actions in tax. Furthermore, predictive analytics powered by AI can predict possible tax evasion based on past performance and behavioural trends. Additionally, modernizing tax administration procedures is possible with the incorporation of AI into tax systems. Moreover, AI systems are scalable and able to manage growing data volumes and change to accommodate new strategies for tax evasion

(Al Obaidy et al., 2024; Aloqaily & Al-Zaqeba, 2024; Al-Zaqeba et al., 2024D; Jebril et al., 2024; Shubailat et al., 2024; Al-Zaqeba and Basheti, 2024a; Jarah et al., 2024; Ahmad et al., 2024; Ababneh et al., 2024; Razzak et al., 2024; Al-Zaqeba and Basheti, 2024; Al-Taani et al., 2024; Shubailat et al., 2024C; Al-Zaqeba and Basheti, 2024). However, there are serious privacy and security issues when using AI for tax enforcement. Besides, some tax administrations might not have the necessary technology infrastructure or experience to implement AI technologies. Further, because biased data can produce biased results, AI systems are only as good as the data they are trained on. Additional, regulations governing the use of AI in tax enforcement must strike a balance between practicality and morality.

Supplementary, to provide comprehensive methods for the identification and compliance of tax evasion, future research should carry out more explorations into the integration of AI with other new technologies, such as blockchain. Empirical research on the long-term effects of AI deployment on taxpayer behavior and tax compliance rates will also be essential. Future research must also prioritize understanding the ethical ramifications and protecting data privacy when deploying AI technology in tax administration. Furthermore, to ensure compatibility and interoperability, future research should concentrate on creating standardized protocols for AI integration with older tax systems. Empirical research is also required to determine how AI integration affects tax compliance and enforcement efficiency over the long run. Gaining the public's trust and assuring the long-term usage of AI in tax administration would require addressing ethical concerns and data protection issues. Subsequent investigations ought to centre on tackling these moral and legal quandaries, delving into the creation of all-encompassing regulatory structures that harmonize the advantages of artificial intelligence with the defence of personal liberties. Empirical research is also required to assess the long-term effects of AI on tax compliance and to improve the fairness and efficacy of AI models. The full potential of AI in tax evasion detection may be achieved by tackling these issues, which will help create more reliable and just tax systems. Future work should concentrate on creating AI frameworks that strike a compromise between scalability and these crucial elements to guarantee that AI systems can manage massive data processing while upholding strict criteria for accuracy, transparency, and compliance. To evaluate these frameworks and inform policy decisions, empirical research on the long-term scalability of AI solutions in various tax administration contexts is important.

8. Conclusion

The scope of AI applications in enhancing tax enforcement capabilities is both vast and promising. Artificial Intelligence (AI) has the potential to revolutionize tax administration by enhancing the identification and mitigation of tax evasion. Artificial intelligence (AI) can improve the scalability, accuracy, and efficiency of tax enforcement procedures through automation, machine learning, and sophisticated data analytics. The exploration of new AI technologies can effectively identify and prevent tax evasion in real time, and how these technologies can completely transform tax compliance operations by providing more accurate and quick fraud detection capabilities. Tax evolution systems may be updated and made more responsive and efficient by investigating new AI technologies. Additionally, blockchain technology and AI together can provide a complete answer to problems with tax compliance. When correctly connected with current frameworks, the benefits of integrating AI with existing systems outweigh any possible obstacles. legal compliance and strong data management are crucial for the integration of AI. The perceived scalability of AI in tax evasion detection is influenced by several factors, including computational capacity, integration with existing systems, public trust, and regulatory compliance.

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Appendix

1. Sex : 1. male , & 2. female

2. Age:

1 22 years and younger ( )
2. 23-34 years ( )
3. 35-45 years ( )
4. 46-55 years ( )
5. More than 56 years ( )

3. Education:

1. Intermediate diploma ( )
2. Bachelor’s degree ( )
3. Master ( )
4. Doctorate ()
5. less of Intermediate diploma ( )

4. Experience:
1. Less than one year ( )
2. From 1 to 5 years ( )
3. From 6 to 10 years ( )
4. From 11 to 15 years ( )
5. More than 15 years ( )

5. Employees:
1. Auditor ( )
2. Tax accountant ( )
3. Directorate Director ( )

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The overall scope of AI Applications (OSA)						
1	To what extent do you think AI technologies can trans?					
2	How much do you believe AI can help with the problems brought?					
3	How much faith do you have in AI's capacity to change with the regulatory environment?					
4	To what extent do you think AI-driven methods can effectively detect?					
5	To what extent do you find the current use of AI technology?					
6	How much are the ethical ramifications of employing AI?					
7	To what extent do you think artificial intelligence may help create a more equitable and open tax system?					
Integration with Existing Systems (IES)						
8	To what extent do you believe that the infrastructure already in place for tax administration can be integrated with AI applications?					
9	To what extent do you believe that tax enforcement organizations may simplify their procedures through the seamless integration of AI?					
10	How worried are you about any difficulties or hiccups that can occur when integrating AI technology with the way taxes are now administered?					
11	To what extent do you think the accuracy of tax evasion detection can be improved by combining AI with current					

	systems?					
12	How much do you believe integration of AI will enable data exchange and cooperation between various tax authorities?					
13	To what extent do you believe that tax enforcement operations may save money by incorporating AI into their present systems?					
Exploration of New AI Technologies (ENT)						
14	To what extent do you believe that keeping up with the latest developments in tax management techniques requires funding research into emerging artificial intelligence technologies?					
15	To what degree do you perceive exploring new AI technologies as crucial for maintaining competitiveness?					
16	How concerned are you about potential risks or uncertainties associated with adopting cutting-edge AI solutions?					
17	How much do you believe that embracing new AI technologies can lead to more accurate and reliable identification?					
18	How likely do you think it is for the exploration of new AI technologies to result in novel approaches?					
19	How much do you agree that investing in the exploration of new AI technologies can enhance effectiveness and efficiency?					
20	To what extent do you find the resources and assistance provided for developing and applying new artificial intelligence technologies?					
Perceived Scalability (PS)						
21	To what extent do you believe AI applications can scale to accommodate increasing volumes of data?					
22	How confident are you in the scalability of AI-driven approaches?					
23	How much do you agree that scalability is a critical factor in the successful implementation of AI technologies?					
24	How satisfied are you with the scalability of existing AI solutions within your jurisdiction?					
25	How concerned are you about potential limitations or bottlenecks in scaling AI technologies for widespread					

	adoption?					
26	How much do you believe in scalable AI solutions?					
27	How likely do you think it is for scalable AI applications to facilitate collaboration and information sharing?					
28	How satisfied are you with the level of scalability planning and implementation in the deployment?					
Tax evasion in enhancing tax enforcement capabilities (TE)						
29	To what extent do you believe that the scope of AI technologies can enhance tax enforcement capabilities to combat tax evasion?					
30	How confident are you in the ability of AI-driven systems to detect and prevent tax evasion compared to traditional methods?					
31	To what degree do you think that implementing AI technologies with diverse applications can improve the effectiveness of tax enforcement in identifying and addressing tax evasion?					
32	How satisfied are you with the current breadth of AI technologies integrated into tax enforcement efforts to combat tax evasion?					
33	How likely are you to support increased investment in a wide range of AI-driven solutions for tax enforcement to address tax evasion effectively?					
34	How effective do you believe AI technologies with comprehensive capabilities are in predicting and mitigating potential instances of tax evasion?					
35	How concerned are you about the potential limitations or challenges associated with implementing AI technologies with extensive scopes in tax enforcement efforts to combat tax evasion?					

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The Impact of Islamic Finance Contracts and Modes on Sustainable Economic Development

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A B S T R A C T

This paper is an offshoot of the increasing realization regarding the relevance and significance of Islamic finance in furthering sustainable economic development. The purpose of this study is to explore the effects of Islamic finance contracts on sustainable economic development in UAE. The design of this study is descriptive–analytical. Population of the study. The population of this study is Islamic banks operating in UAE. The data was processed by two main statistical techniques; SPSS version 29 and Smart PLS4. The findings indicated that application of the Islamic finance contracts Murabaha, Mudarabah, and Ijarah contribute to sustainable economic development. Cash flow mediated still improves the relationship significantly. Thus, managing liquidity is essential to ensure the effectiveness of Islamic finance contracts in driving sustainability. Cash flow helps financial institutions to fund green investments and thus highlights the wider economic necessity of liquidity. As for the financial institutions' cash outflow, the study highlighted that Islamic finance transactions inherently comply with ethics and real economy principles which at times can be also a better recourse to help them keep their cash flow away from speculative activities. The policy implications of such findings are seismic for policymakers and financial institutions alike. Policymakers are urged to build stronger regulatory frameworks conducive to Islamic finance that do not allow liquidity constraints to impede the role of these instruments in sustainable development. For Islamic banks, this suggests the importance of improving liquidity management and aligning financial strategies with the goal of sustainable development.

***JEL Classification:** G21, G32, O16, Q01, & Z12.*

1. Introduction

Islamic finance has evolved into a key component of the global financial industry and is now more

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commonly practiced in Muslim-majority countries, such as the UAE, where it plays an important role in shaping the broader economic environment to promote sustainable development. Contracts in Islamic finance (such as Murabaha, Ijarah, and Mudaraba) have made it possible to provide the financing needed by individuals and businesses while making sure that their transactions are Sharia-compliant. These contracts support social responsibility investments, partner risk sharing and infrastructure usage of real assets, which in line with the objectives of UAE's long-term development plans such as Vision 2021 and UAE Green Economy Initiative. On the contrary even if these contracts are considered as bringing certain theoretical benefits of Islamic finance, they still lack in practice especially when it comes to liquidity management (Makrorubin and Alafianta, 2023). Islamic finance based on Sharia, which does not allow Riba (Interest) and guides the principles where financial transactions should be through risk-sharing, ethical investment, behind real economic activity. This unique twist to finance has led the sector gaining prominence worldwide and particularly in UAE, which has emerged as a key center for Islamic banking. The emergence of Islamic financial institutions adhering to a blend of national economic policy objectives and Sharia principles has enabled these institutes to provide befitting alternatives for the conventional financial products. This has been true as Islamic contracts, such as Murabaha (cost-plus financing), Ijarah (leasing) and Mudaraba (profit-sharing), have underpinned the development of an Islamic finance model which achieve growth but not at the expense of shari'ah principles (Al-Taher, 2023). These agreements have a strong emphasis on both promoting fairer wealth distribution and tackling wider societal issues. The question however, is how these contracts can be further optimized to remain sustainable for the long run and to manage liquidity in an efficient way as UAE transitions to a new economic landscape. Since then, the development of Islamic finance in UAE has made impressive strides, with the IMF estimating that Sharia-compliant assets around the world grew by 8% in 2023, but significant hurdles remain. That the liquidity function of Islamic banks, which is a complementary one bringing wholesome changes in the institutional design of intermediation and allocation to foster sustainable development has yet attracted minimal discussion. Islamic banks cannot use interest-based instruments since they are classified as Riba; thus, they have to adhere to prudent limits on liquidity unlike commercial banks. This poses a unique challenge, as these banks must keep liquidity always to fund projects and remain financially stable (Al-Etihad Newspaper, 2021; Lootah, 2024; Al-Taani et al., 2024). Given the importance of cash liquidity to ensure the proper functioning of their banking sector, this raises questions on how Islamic banks can work with a similar type of liquidity provisioning all for the support and enablement of sustainable economic growth in UAE.

The background and motivation of doing this research lies on the increase interest in sustainability area around the world and importance of finance to achieving Sustainable Development Goals (SDGs). That would naturally serve as a dominant financial model, provided that the Islamic finance; based on ethics emerges as an effective way to direct finance towards sustainability objectives. This still leaves a difficulty in how effectively Islamic finance contracts can be used to deliver the liquidity required, and will drive sustainable growth. As the UAE further establishes itself as a major player in Islamic banking, knowledge of how these contracts impact the liquidity-sustainability nexus is pertinent for policymakers and financial institutions alike (Barani, 2016). The challenge of liquidity management in Islamic Banks is more pressing, especially in the light one learned from post global financial crises that have proved the critical role of liquidity to sustain banks stability. In addition to the constant need for liquidity faced by conventional banks, Islamic banks have unique pressures since they rely on asset-based transactions and risk-sharing mechanisms in compliance with Sharia principles. Compounding these challenges are the narrow focus of a large number of Islamic banks only on specific types of short-term financing such as trade finance and asset leasing, which constrains their participation in long-term development projects.

In addition, even though the developments of bank in Islam progressively there are still lack empirical findings explained on how Islamic finance contracts generally contribute to sustainable economic development directly especially liquidity management. The fundamental challenge addressed by this study is the need for a deeper understanding of the role liquidity plays as a mediator between Islamic finance contracts and long-term economic growth (Hamed, 2022). Islamic banks suffer constraints related to the Sharia Law, which not only impacts its liquidity position but also restricts the deployment of funds and hence in achieving balance between liquidity and thus this study aims to discuss how Islamic banks can deal with such restriction without losing sight on the overall economic objectives envisaged by UAE (Makrorubin and Alafianta, 2023). Thus, this study aims to address a key void in prior research (Al-Taher, 2023). The research could have a significant impact on the UAE policy and regulatory environment and for the financial sector, thus provides valuable policy lessons on how to design monopoly Islamic finance contracts that improve liquidity sustainability. This research is aimed at enhancing our understanding of this dilemma and how Islamic banks can manage to maintain their ethical principles in a pragmatic way so as not to lose the competition ability, on the short term; neither it should go against the UAE strategic long-term development goals.

2. Literature Review

In recent years, Islamic finance has drawn much attention as a credible alternative to the conventional financial system; with its role in promoting sustainable economic development is absolutely crucial. This research has been focused in a variety of financing modes grounded in Islamic law (Shariah) such as Sukuk, structured finance contracts, installment financing, profit-loss sharing contracts. All of them come up with specific means to support investment and the economy in a manner consistent with Islamic jurisprudence that follows ethical principles, including the prohibition of interest (Riba). The extant literature has touched upon issues that span from the difficulties in issuance of Islamic Sukuk in some areas to whether or not structured finance contracts could help alleviating liquidity problems by large corporations. Despite knowledge has evolved, but there are still gaps in comprehending the mediator role of liquidity with respect to connecting various Islamic Finance modes and sustainable economic development, a vital aspect for aligning Islamic financial institutions to effectively contribute toward long term growth and stability. Prior research in Islamic finance covers a wide variety of creative examinations on the diverse financing modes and how they influence economic progress. For example, an article by Al-Taher (2023) addressed the reliability of structured finance contracts in large institutions financing performance as compared to traditional financial systems. A research determined that this finance is more like the traditional Islamic finance contracts and could be beneficial in promoting investment even in the era of economic and financial globalization (Al-Taher, 2023). In contrast, Awwad et al. One of the last articles in (2024), investigated the difficulties of issuance of Islamic Sukuk in Palestine, and demonstrated how legal and economic problems stand behind preventing Sukuk to be widely implemented as a finance tool. Awwad et al., (2024) finally drawn on this issue by stating its result that the Sukuk as become crucial factor in financing economic projects and for it to do so there is required legal reforms and regulatory reforms. Meanwhile, in contrast with Alavianta and Makroubine (2013) focusing on instalment financing at Islamic banks and the importance of it in realising the Shariah purpose about wealth protection. However, despite this comprehensive examination of modalities of instalment financing, there was little to no exploration into the impact that these modalities may have on liquidity from which the demand for further research in this sector as a whole (Makroubine and Alavianta 2023). In a similar fashion, Hamed (2022) highlighted the opportunities and challenges for Islamic banks in the knowledge economy. Although the researchers emphasized technological, and technical challenges in the study rather than directly exploring the doing effect of liquidity on sustainable economic development which need a further investigation and to be clearer (Hamed, 2022). Abu Ali (2022) studied the contribution of Islamic banks in Dubai to support and finance economic development. By Abu Ali (2022): The study, while reiterated the pivotal role of Islamic banks in financing projects that are constructive and developmental, it however failed to investigate liquidity as a mediating variable in the sustainable economic development brought about by Islamic finance. In addition, Amin Zaid (2021) highlighted in his study the role of Islamic banks as a means to finance economic projects and development. However, as noted in previous studies, it failed to satisfactorily account for the role of liquidity as a mediator (Zaid, 2021a) which calls for more research specifically focusing on this dimension.

3. Hypotheses Developments

The main objective of this suction is to investigate the Islamic finance contracts, liquidity, and their combined effects on sustainable economic development with special reference to the UAE. Based on reviewing the literature of Islamic Financial instruments, and concepts dealing with liquidity management in conventional banks which are matched with the objectives of sustainable development this section will refer to identified gaps in research and propose hypotheses. On these assumptions this section is formulated as a set of hypotheses which in turn recognized Islamic finance being an element in such style could theoretically contribute to the journey of achieving more sustainable economic growth. Furthermore, the study analyses the role of liquidity, as an explanatory variable and mediator variable between Islamic finance contracts economic sustainability. Using sustainability literature and liquidity theory as a theoretical foundation, we develop four hypotheses that seek to provide further insights on the above-mentioned relationships.

٢، ١ *Islamic Finance Contracts and Sustainable Economic Development*

Proper implementation of Islamic finance contracts is very important for sustainable development. These contracts include but are not limited to Murabaha, Musharaka, Mudaraba, Ijara which are based on sharia compliant principles where interest is banned (Riba) and profits/losses should be shared based on the return of each. Designed to facilitate an equitable distribution of wealth and direct funds toward industrial activities, they are intended for increased growth with stable development. In addition, sustainable economic development has become a priority for most nations, UAE included. Growth that improves the well-being of current and future generations whilst at the same time not harming the environment, destroying natural resources. Islamic finance can play an effective role in achieving target whereas Islamic finance is based on following and considering the principles of Shariah i.e. transparency, fairness, and investment in real economy. These studies empirically test the role of Islamic finance in economic development, using Shariah-compliant financial products and comparing both micro- and macro-level results. A study by Abu Ali (2022) provides an example of this, showcasing that in Dubai, Islamic banks have been major contributors towards funding developmental projects which in turn would help reduce economic slowdown and enhance development. Nonetheless, Zaid (2021) scorched the possibility of Islamic banks to be a financial resource mobilizing media for economic development. However, as pointed out by another review, this study did not investigate the direct influence on sustainable development of various Islamic finance contracts, this indicates a need for further research in this field. A similar study by Al-Mohammedi (2021) focused on the efficiency of Islamic banks in enhancing and financing development, where he/she stated that Islamic finance contracts are characterized by being diverse and more inclusive. But the study failed to adequately explore the role of these contracts in reproducing sustainable economic development in the UAE. Additionally, the work of Fartas (2018) showed that Dubai Islamic Bank is an essential partner in financing infrastructure projects, being a responsible investee for sustainable development. However, it is still necessary to elicit an in-depth insight into how Islamic finance contracts influence many aspects of sustainable development. Thus, this analysis is supported by the theory of sustainable development, in which it is maintained that economic growth must go hand in hand with social justice and environmental protection. They are based on the idea of striking an optimal balance between its economic, social and environmental realms. Shariah-compliant Islamic finance contracts were developed with the ideal objective of striking this balance to ensure the promotion of investments that are socially responsible. Hypothesis Development Based the critical discussion of earlier studies and the underpinning theory, it is plausible to advance the following Hypothesis:

H1: The use of Islamic finance contracts has a significant positive impact on achieving sustainable economic development in the UAE.

٢، ٢ *Islamic Finance Modes and Liquidity*

The most important & essential factor that impacts the ability of banks to meet financial obligations and efficiently implement financing strategies is Liquidity. The liquidity in the Islamic perspective depends on the Islamic finance modes, like Murabaha, Musharaka, Mudaraba, and Ijara(resources: gale.com) These modes are in line with Islamic Shariah principles that discourage Riba (interest) and is rather a transparent mechanism of profit sharing that can increase banks obligation readily. Liquidity is the lifeblood of any banking system, so key to ensuring both bank solvency or stability and their capacity to meet client demand. Islamic banks require financing instruments that invalidates Shariah, mobilizes financial resources to organic and productive real economic activities. Hence, understanding the relationship between Islamic finance modes and liquidity may lead to potential improvement of financial strategies for Islamic banks which would help in making them more effective in practicing development programs and plans. Several researches have investigated the impact of Islamic finance modes on liquidity. For example, the research of Maqrobin and Alavianta (2023) underlines the role in Islamic payment obligations caused by an installment system in banks. According to the research, instalment-based financing models can cause cash flow problems if not managed carefully. Despite this, the study did not give enough consideration to the overall effect of different Islamic financing modes on liquidity. Hasban (2019) also highlighted in his study on development and cooperative societies, that Islamic banks have an important role in sponsoring these activities, as Is kali such entities rely on the availability of liquidity from banks. Yet, the study failed to identify the influence of a bank-specific Islamic finance mode on its liquidity. However, Islamic banks being able to raise financial resources from the Islamic finance modes as was confirmed by Zaid (2021) may serve for economic development thus it is implied that these various means of Islamic fiance could greatly enhance the liquid incentivizing. But this study did not go on to specify each of the Islamic finance modes has been influenced by liquidity. This same liquidity theory is what makes provisioning continuously for liquidity to underpin bank stability. That is ensuring the liquidity required to cover expenses that are time bound and, to support developmental agendas has be pumped in. Given that Islamic finance modes focus on the real sector and shun speculative activities, they can be important in terms of improving the liquidity of Islamic banks. Therefore, after a critical discussion of the existing studies and theory supporting this paper, we can formulate the hypothesis as follows:

H2: The application of Islamic finance modes has a significant positive effect on banks' liquidity in the UAE.

2.3 Liquidity and Sustainable Economic Development

Liquidity, is the lifeblood of any economy. It keeps organisations in business and enables them to pay their bills or fund new projects by borrowing from banks. Liquidity, when framed in terms of sustainable economic development is responsible for capitalising sustainable economic activities which can incorporate a kind of economy potentially to make profits with some notion towards environmental and social.) This study can facilitate the design of appropriate financial instruments as well as monitoring and evaluation mechanisms for macroeconomic policies in UAE. It is not new that many are the studies that show the importance of liquidity in sustainable economic development and how it acts as a propellant for reducing inflation and cost of capital. For example, Fartas (2018) highlighted the critical role of Islamic banks in infrastructure finance as financial resources are very much needed to undertake sizeable projects which part and parcel for sustainable development. But the study did not directly investigate liquidity and sustainable economic development. Likewise, Hasban (2019) discovered the involvement of Islamic banks towards cooperative societies and social development in which liquidity provision is a contribution to realizing social and economic objectives. But little examination takes place in the study on how liquidity specifically affects sustainable economic development. This leads to the conclusion that economic growth must be sustainable and framed fundamentally by social and environmental considerations as posited by theory of sustainable development (Longo et al. 2017). Therefore, an economy with available liquidity has the capacity to direct investments towards activities that manage this balance, funding economic activities that do not damage the environment whilst still promoting social welfare. This hypothesis intends to test the association between liquidity and the sustainable development of an economy. Given the critical review of quantitative research to date and the theoretical rationale for this study, a hypothesis in line with the following questions may be generated:

H3: Liquidity affect the sustainable economic development in UAE.

2.4 Liquidity as a Mediator

Liquidity is a foundation of any banking system, which allowed to banks fulfill their current financial obligations and provide continuous financing tools. Islamic finance, however, brings about its own unique strengths with side effect that can play an important mediating role between Islamic finance modes and sustainable economic development in the form of liquidity thereby supporting all these modes to achieve their goal for SDG. A substantial amount of research has been carried out concerning Islamic finance modes and liquidity, yet limited attention had been given to the mediating role of liquidity towards sustainable development. Liquidity is a key factor to endorse the cooperative societies and hindalves-social by Hasban

(2019) stresses on the need of this liquidity stemmed for supporting economic and social only, as has its impact tangible targets. Meanwhile, the role of liquidity in mediating between modes of Islamic finance and Sustainable Development has not been studied directly by former researchers. In a similar vein, the study by Zaid (2021) provides empirical evidence that Islamic banks can effectively channel funds for economic development, suggesting that liquidity is indeed important in this regard. Nonetheless, the research lacks of exact findings on how the supply of liquidity mediates between Islamic finance modes and sustainable development. This is consistent with mediation theory which posits that a mediator will either increase or decrease the effect of the independent variable on the dependent variable. Thus, within the following framework, liquidity can be a mediator between Islamic finance modes and sustainable economic development. Liquidity is also a key driver to sustainable development if you can get banks stabilized and force them on investing in green. This proposed hypothesis tries to check whether liquidity as mediator intensity or strengthen the association between Islamic finance modes and sustainable economic development. A hypothesis can be formulated as follows:

H 4: Liquidity acts as a mediator between Islamic finance modes and sustainable economic development in the UAE.

4. Research Model

The study model is constructed to investigate these relationships amongst Islamic Finance Contracts, liquidity and sustainable Economic Development in UAE as well from socio-economic conditions of UAE having influence on them with mediating variable named liquidity. Model in Figure 1: It is hypothesized that Islamic finance contracts (H1) have a direct effect on sustainable economic development and liquidity (H2). In addition, it also contains the impact of liquidity on sustainable economic development directly (H3). This is followed by the model that assumes that liquidity will mediate Islamic finance contracts and sustainable economic development (H4). The conceptual basis of this model lies in the established role of Islamic Finance for strengthening sustainable strategy and liquidity management (Abo Ali, 2022, Zaid, 2021), as well as a fundamental priority to ensure high liquidity levels which is ultimately stabilizing financial stability and support economic growth in the long term (Hasban, 2019; Fratas, 2018).

The guides the theoretical underpinning of this model on practice interlink and are Sustainable Development Theory in which it argued that financial economic, environmental and social objectives should be reconciled to achieve long-term economic success; also Liquidity Theory states that organisations must seek liquidity not only through financial ways, but also in ways to impact, influence society. Based on the integration of these frameworks, the study attempts to illuminate paths on how Islamic finance and liquidity management gears sustainable outcomes particularly in an economy like UAE which intends to align its financial system with sustainability goals.

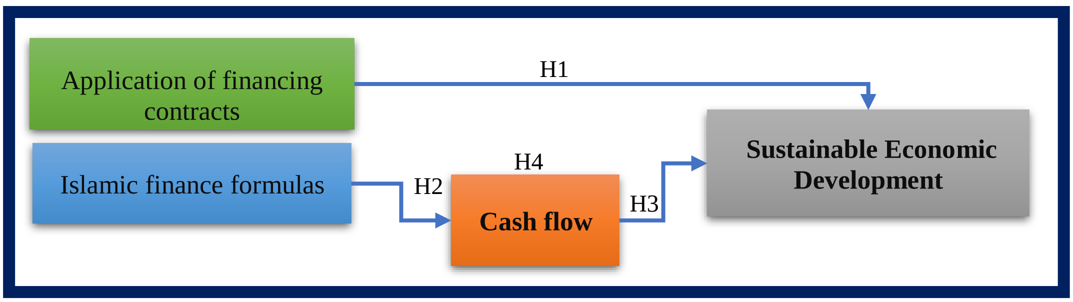

Figure 1. The Research Conceptual Framework

The model offers a systematic investigation of these linkages, and how Islamic finance contracts interplay with liquidity-availability to affect the overarching objective of sustainable economic development.

5. Methodology

The present study is based on a descriptive-analytical research design that aims to examine the effects of Islamic finance contracts on sustainable economic development in UAE. This method help capture and investigate the multifarious interlinks between Islamic finance, liquidity and sustainable development which is a key purpose of this paper. This methodology enables to provide scientific overview of these phenomena, that goes beyond considering macroeconomic effects and aims at identifying average contribution of Islamic finance contracts (Al Obaidy et al., 2024; Maabreh, 2024). This methodology is deemed robust to assess complex and nuanced relationships of financial behavior linked with sustainability within the context of socio-economic parameters prevailing in UAE especially when these contracts are built upon Islamic sharia principles, which have determinants of unique ethical and religious sections. This research was done by descriptive-analytical approached in fact and is one of the main stream studies compare to experimental type or purely statistical studies, which can also better reflect and covers more areas about Islamic financial framework. Unlike traditional finance mechanisms, which are premised on establishing borrowing-and-lending relationships, the Islamic alternatives utilize contracts such As Murabaha, Mudarabah and Ijarah, doing business through ethical investing and with a risk-and-reward-sharing approach. This approach is more suitable for the current study as it explores Islamic finance roles in sustainable development from both an operational context and a broader economic impacts of Islamic finance contracts angle permitting a detailed examination on this subject. The data was collected through questionnaires which were distributed to all Islamic bank (Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates Islamic Bank, Sharjah Islamic Bank). This is a deliberate choice, as these banks are major constituents of the Islamic financing business and can reveal broader-making behaviors of these financial contracts in the economy. The sample consisted of 221 individuals, comprises top-level management personnel such as regional managers and finance executives. Such individuals are best placed to offer well-informed insights into the relevant Islamic finance contracts and their wider implications for sustainable economic development.

6. Findings

The data of the study were conducted through the SPSS version 29 with Smart Partial Least Squares (PLS4) Version 4. Initial data screening was performed by SPSS software, through checking missing values, outliers, normality and multicollinearity. Moreover, SPSS 29 was used to perform exploratory factor analysis (EFA) and content validity of constructs. This was done to make sure that the items from the dataset were properly categorized under the variables and followed the structure of that study. Meanwhile, Smart PLS was used for validation of the Measurement Model (MM) and Structural Model (SM). The above results show high reliabilities of structural model hence the study before testing it already assured that construct validity and discriminant validity was not an issue. Sample size was 221 and its demographic distribution is as follows gender, age, education qualifications, years of experience and job title. Gender Distribution: The data reveal a dominance of males with 80.1% of the sample as compared to females at 19.9%. The huge male-female imbalance may indicate that the area of Islamic banking for Dubai jobs in UAE is more inclined toward men and therefore, it can reflect differently on other opinions regarding finance and management.

The largest age group was 41–50-year-olds accounting for a total of 42.5% of the sample Next was the 31–40 age group (24.9%) then the 20–30 age group (21.3%). Patients younger than 20 years (1.4%) and older than 50 years represented the smallest age groups. Sample dominance of middle-age could then suggest the age at which your sample segment is fully in his professional career, and in an era of high expertise and decision-making steadiness. Bachelor's degree was the most common response (77.8%) and suggested a high level of academic qualifications among respondents in the sample. Next were respondents with master's degrees (11.3%) and smaller numbers of those who had secondary education (3.6%), diplomas (3.2%), and PhDs (2.3%). The fact that a majority of the respondents have bachelor degree suggests they are equipped with good general professional knowledge and hence can be in a better position to evaluate and implement Shariah finance principle identity. Over 46.6% had more than 10 years' experience while, 41.6% professionals with experience in between 6-10 Years The relatively high level of professional exposure suggests the sample is mature and sensitive to the subtleties ignored in the conventional literature regarding

Islamic finance and economic growth. Accounts was the most frequent job (65.6% of the sample), followed by administrative staff (12.2%) and general managers (8.1%). Moreover, it is likely that the financial focus of accounting within Islamic banking perhaps also reflects the higher representation of accounting roles among sample venues.

Convergent Validity is considered satisfactory when the Average Variance Extracted (AVE) equals to or exceeds 0.50 This must be confirmed as valid but only after which other criteria must be established to ensure that these measurements are meaningful. The first criterion stipulates that factor loadings larger than |0.70| indicate indicators are strongly related to the latent variables for which they measure. The internal consistency must be verified by checking Cronbach's Alpha, and the value of this and composite reliability should be greater than 0.70. Lastly, the AVE should be above 0.50 indicating a very good amount of variance in the indicators to be explained by their target latent variables (Carmines and Zeller, 1979). If they are, then the model is said to enjoy convergent validity, suggesting that the measurements that are adopted in the study accurately measure what needs to be measured. However, Table (1) presents critical statistical measures related to the reliability and validity of the constructs used in the study

Table ١: Item Saturation, Composite Reliability, Cronbach's Alpha, and Convergent Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Application of financing contracts	0.914	0.926	0.933	0.700
Cash flow	0.906	0.924	0.925	0.672
Islamic finance formulas	0.794	0.799	0.866	0.619
Sustainable Economic Development	0.840	0.874	0.903	0.758

Based on Table (1) above, Cronbach Alpha with a value of over 0.70 generally indicates Internal consistency is reliable. In particular, all constructs show high internal consistency with Application of Financing Contracts having the highest coefficient value at 0.914 and Cash Flow coming next at 0.906, followed by Sustainable Economic Development with the least coefficient value of 0.840; Even the category with the lowest value, Islamic Finance Formulas, contains an acceptable level of reliability; Cronbach's Alpha = 0.794 This indicates that the items of each construct are well-positioned to determine measurements on same latent variables. Though we believe the high Cronbach's Alpha value is certainly something of desirability that correlates representativeness, literature provides reason to be wary about ultra-high values as this could suggest some item redundancy; items are becoming too similar to one another and thus not truly reflecting the construct. This also means that all constructs get beyond the 0.70 threshold and should be a stable model Financing Contracts exhibit the highest rho_c at 0.933, then It is followed closely by Cash Flow (0.925) and Sustainable Economic Development (0.903). Similarly, the Islamic Finance Formulas construct has a rho_c value of 0.866 which suggests less reliability compared to clear consciousness bombing scheme structure. AVE indicates the proportion of variance in the indicators that is explained by the latent constructs, and it should exceed 0.50 to demonstrate good convergent validity. This provides strong support for the convergent validity of all constructs in Table (1) as all exceed this minimum. Sustainable Economic Development shows the highest AVE, 0.758 which means a substantial variance explained by the construct. In addition, the Application of Financing Contracts (0.700) and Cash Flow (0.672) presented higher AVE values as well, indicating that latent variables explain for most of the variance present in the respective indicators. With an AVE of 0.619, Islamic Finance Formulas also fit the proposed criteria; though visibly less than the remaining constructs, it had convergent validity. However, Figure (2) below shows the final measurement model, which reflects that all required validity criteria have been met, including discriminant validity, which ensures that the latent variables in the model actually measure what they are supposed to measure without interference or confounding from other variables.

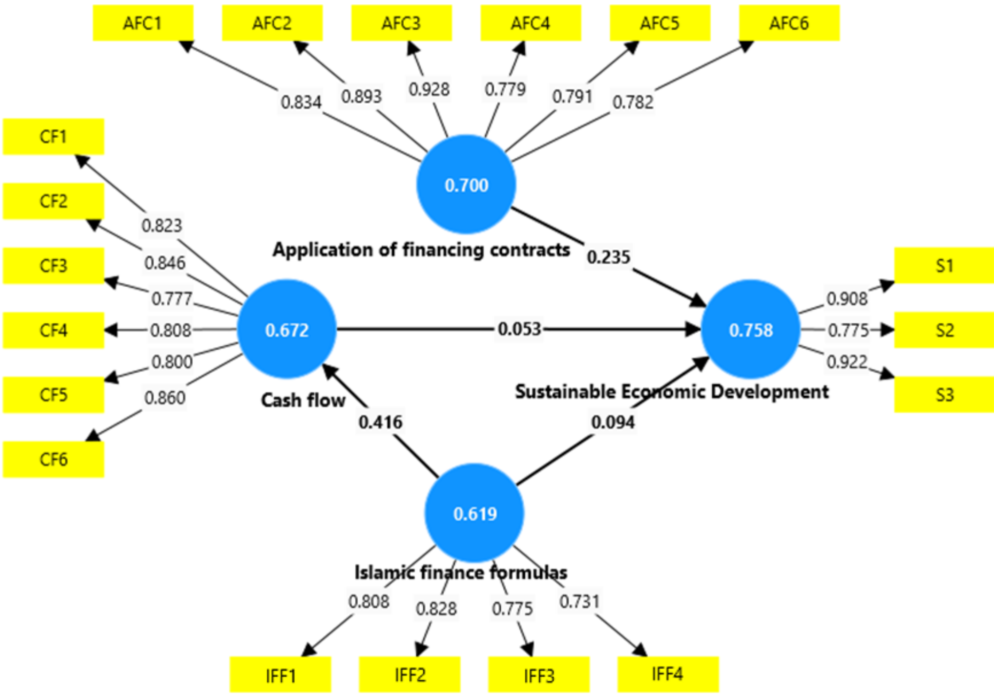

Figure 2. Measurement Model

6.1 Hypothesis Testing

This paper included four hypotheses, including direct and indirect (mediating) hypotheses, which represent the basis for analyzing the relationships between the studied variables. The hypothesis is considered to be supported if the P value is less than 0.05, indicating that the relationship between the studied variables is statistically significant. According to Hair et al. (2017), to obtain reliable results in hypothesis testing, it is necessary to use the bootstrapping technique with at least 5000 bootstrapping. This method enhances the accuracy of statistical estimates and reduces the possibility of relying on random or misleading results. Based on this suggestion, all hypotheses in this study were tested using 5000 bootstrapping, to ensure that the results derived reflect the true relationship between the variables.

The final important stage in structural model analysis and evaluation involves testing the research hypotheses by evaluating the path coefficient. To achieve this, the hypothesized relationships are analyzed by running a process that resamples the original data set to create multiple simulated samples. This process allows the researcher to calculate standard errors, create confidence intervals, and conduct hypothesis testing in a rigorous manner. Since PLS-SEM (Partial Least Squares Structural Equation Modeling) does not require a normal distribution of the data, the use of bootstrapping provides a way to estimate the normality of the data. In this process, random replicate samples are created with alternatives from the original sample, allowing many properties of the data to be preserved during the analysis. The goal of this procedure is to ensure that the data distribution reasonably represents the specific distribution on which the analysis is based.

Bootstrapping was used based on the assumption that the data distribution reflects a logical distribution of the phenomenon being studied. Through this procedure, estimates of the spread, shape, and bias of the sample distribution can be obtained, which is essential for a reliable statistical test (Henseler et al., 2017). In addition, the results in PLS-SEM display the standard errors and t-values for all path coefficients in the model, which enables the significance of relationships to be measured and the research hypotheses to be tested statistically. Bootstrapping was used as part of this analysis, and Figure (3) illustrates a visualization of the study’s hypotheses testing.

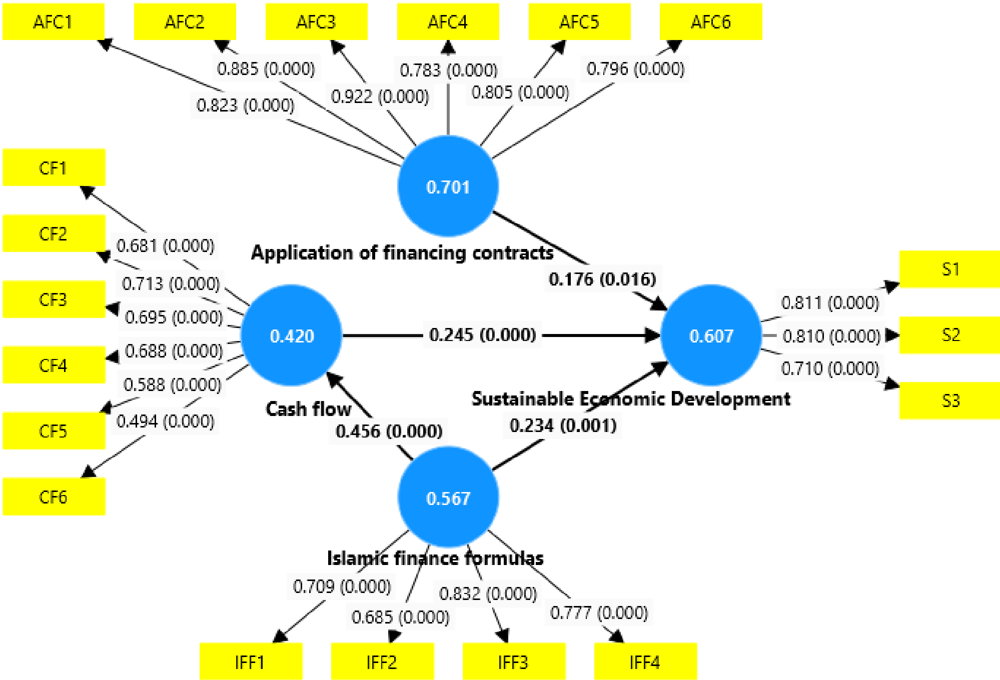

Figure 3. Hypothesis Testing

The table (2) below provides the results of the hypothesis testing, which examines the direct effects of various constructs on sustainable economic development and cash flow. The analysis was conducted using Smart PLS software, with a focus on both direct and indirect relationships. The key constructs under investigation include the application of financing contracts, cash flow, and Islamic finance formulas. These hypotheses were tested to explore their respective contributions to sustainable economic development within the context of Islamic banking practices.

Table ٢: The results of the hypothesis testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Application of financing contracts -> Sustainable Economic Development	0.176	0.177	0.073	2.410	0.016
Cash flow -> Sustainable Economic Development	0.245	0.251	0.068	3.575	0.000
Islamic finance formulas -> Cash flow	0.456	0.466	0.054	8.472	0.000

The results in the table show that each of the tested hypotheses demonstrates statistically significant relationships. For instance, the application of financing contracts shows a positive and significant impact on sustainable economic development, with a T-value of 2.410 and a p-value of 0.016, indicating moderate support for the hypothesis. Similarly, cash flow's effect on sustainable economic development is both positive and stronger, as evidenced by a higher T-value of 3.575 and a p-value of 0.000, demonstrating a strong relationship. Islamic finance formulas also exhibit a highly significant positive effect on cash flow, with a T-value of 8.472 and a p-value of 0.000, reinforcing the pivotal role that these financial instruments play in enhancing cash liquidity. The results indicate that cash flow acts as a critical mediator in linking Islamic finance formulas and sustainable development, supporting the notion that liquidity is essential for the successful implementation of sustainable economic strategies. However, while the relationship between the application of financing contracts and sustainable economic development is positive, it appears to be weaker than that between cash flow and sustainable development, suggesting that cash flow may play a more crucial role in fostering sustainability in Islamic finance. Moreover. Table (3) below extends the analysis by examining both the direct and indirect effects of Islamic finance formulas on cash flow and sustainable economic development. It also tests the mediating role of cash flow in these relationships.

Table 3: Direct and indirect effects hypothesis testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Application of financing contracts -> Sustainable Economic Development	0.176	0.177	0.073	2.410	0.016
Cash flow -> Sustainable Economic Development	0.245	0.251	0.068	3.575	0.000
Islamic finance formulas -> Cash flow	0.456	0.466	0.054	8.472	0.000
Islamic finance formulas -> Sustainable Economic Development	0.346	0.351	0.069	4.984	0.000

The findings in this table provide a deeper understanding of the direct and indirect effects that Islamic finance formulas have on sustainable economic development. Notably, Islamic finance formulas exhibit a significant direct impact on sustainable development, with a T-value of 4.984 and a p-value of 0.000, underscoring the direct contribution of Sharia-compliant financing mechanisms to economic sustainability. The impact of Islamic finance formulas on cash flow is also confirmed to be highly significant (T = 8.472, p = 0.000), reinforcing the earlier findings that these financial instruments are instrumental in enhancing liquidity. More critically, the indirect effect of Islamic finance formulas on sustainable development through cash flow further highlights the mediating role that liquidity plays. The p-value of 0.000 confirms that cash flow is an essential intermediary in translating Islamic finance practices into sustainable economic outcomes. This emphasizes the need for Islamic banks to focus not only on the application of Islamic finance contracts but also on enhancing cash flow to achieve long-term economic sustainability. In addition, Table (4) explores the mediating role of cash flow in the relationship between Islamic finance formulas and sustainable economic development. It aims to determine whether cash flow enhances the effect of Islamic finance contracts on sustainability.

Table 4: Mediating testing

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Islamic finance formulas -> Sustainable Economic Development	0.112	0.116	0.031	3.579	0.000
Islamic finance formulas -> Sustainable Economic Development	0.234	0.235	0.073	3.218	0.001
Islamic finance formulas -> Cash flow -> Sustainable Economic Development	0.112	0.116	0.031	3.579	0.000

Table (4) above provides further evidence supporting the mediating role of cash flow between Islamic finance formulas and sustainable economic development. The direct effect of Islamic finance formulas on sustainable economic development, shown by a T-value of 3.579 and a p-value of 0.000, suggests a significant positive relationship. However, the inclusion of cash flow as a mediator significantly strengthens the relationship, as indicated by the increased T-value of 3.218 and p-value of 0.001 in the indirect path. This suggests that cash flow acts as a crucial channel through which the benefits of Islamic finance formulas are realized in the context of sustainability. The findings emphasize the need for Islamic banks to manage liquidity effectively, as it not only supports the implementation of Islamic finance contracts but also enhances the broader objective of achieving sustainable economic development. The strong mediating role of cash flow also highlights the importance of robust financial infrastructure in ensuring that Islamic finance practices contribute meaningfully to economic sustainability. The findings from the hypothesis testing provide crucial insights into the relationships between the application of Islamic finance contracts, cash flow, and sustainable economic development in the UAE. These results are critically discussed in the context of existing literature, shedding light on the implications and significance of each hypothesis. The first hypothesis (H1), which proposed that the application of Islamic financing contracts has a positive and significant impact on sustainable economic development, is supported by the data. With a T-value of 2.410 and a p-value of 0.016, the relationship is statistically significant, though not as strong as other relationships in the model. This is consistent with previous studies like Abu Ali (2022), which demonstrated that Islamic financial contracts such as *murabaha* and *mudarabah* can play a role in reducing economic stagnation and promoting infrastructure projects. However, the moderate strength of the relationship suggests that financing contracts alone are not sufficient drivers of sustainability without effective liquidity management. This finding aligns with Zaid (2021), who emphasized that resource mobilization is essential for the success of Islamic financial contracts in fostering economic growth. The second hypothesis (H2), which tested the role of cash flow in contributing to sustainable economic development, is strongly supported by the results. The analysis reveals a highly significant relationship, with a T-value of 3.575 and a p-value of 0.000, confirming that cash flow plays a critical role in enabling long-term investments in sustainable projects. This finding echoes the conclusions of Faritas (2018), who pointed out the importance of liquidity in funding large-scale initiatives that drive sustainable economic growth. Without sufficient cash flow, Islamic financial institutions may struggle to maintain their commitment to sustainability, further underscoring the essential role of liquidity management in the process. The third hypothesis (H3) explored the effect of Islamic finance formulas on cash flow. This relationship is confirmed with a robust T-value of 8.472 and a p-value of 0.000, indicating that the use of Islamic finance contracts such as *Ijarah*, *Mudarabah*, and *Murabaha* significantly enhances cash flow. These contracts are designed to improve liquidity through asset-based financing rather than speculative activities, which strengthens the financial stability of Islamic banks. This result is supported by Makorobin and Alafianta (2023), who found that Islamic financial contracts, by encouraging real transactions, improve repayment reliability and cash flow management. The final hypothesis (H4) focused on the mediating role of cash flow in the relationship between Islamic finance formulas and sustainable economic development. The mediation analysis confirms this hypothesis, with cash flow acting as a significant intermediary ($T = 3.579$, $p = 0.000$). This suggests that while Islamic finance contracts have a direct positive effect on sustainability, their full potential is realized when supported by strong liquidity. This finding aligns with studies such as Zaid (2021) and Abu Ali (2022), which found that liquidity enables Islamic banks to sustain investments in projects that contribute to long-term economic and environmental goals.

7. Implication

The implications of these results are therefore quite important from the perspective of policymakers and financial institutions in the United Arab Emirates (UAE) particularly with respect to Islamic finance and sustainable development in an investment environment. Initial, the results spotlight the significance of enhancing the utility of an Islamic finance contracts including Murabaha, Mudarabah and Ijarah to assistance sustainability. These contracts adhere to the Sharia principles, but it is hoped that with good liquidity management they serve as a sound mechanism for driving economic development. UAE lawmakers ought to develop legislation that incentivizes these contracts, namely in the area of infrastructural projects, green technology and social enterprise which can deliver strong economic and environmental returns. Lastly, the study has important contribution to the Islamic financial institutions as it emphasizes that all-in-all cash flow management should be considered by them on top in their operations. It is critical for a bank to have cash flow not only for everyday operations but also in order for it to be able to invest in projects which are sustainable and offers returns on both financially and social levels. Institutions need to implement strategies and toolings for maximizing liquidity, in compliance with the model of Islamic finance. Our financial products perhaps, or our risk management practices, or even a more concerted effort to connect with sustainable development goals (SDGs). The results also suggest that the link between Islamic finance contracts and sustainable development is not direct, but mediated by cash flow; it stresses the necessity of comprehensive policies that jointly address financial performance, liquidity, and sustainable economic growth. Financial institutions need to work with regulators and other stakeholders to ensure that liquidity constraints do not inhibit their participation in sustainable development efforts. Once these implications are resolved, both the private and public sectors stand to benefit from enhancing the contribution of Islamic finance towards achieving a more sustainable and resilient economy - an integral part in the UAE vision.

8. Conclusion

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The Evolution of Corporate Governance in Jordan: A Study of Pre- and Post-2017 Reforms

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A B S T R A C T

Good corporate governance is in essence very important in designing both global trends of transparency and accountability that assure business performance. Good results include updating Jordan's regulatory framework in 2017 with the best international practice; this was a pivotal milestone in the development of Jordanian corporate governance. The study examines the changes in Jordan's corporate governance practices before and after 2017, focusing on the regulatory environment, organizational compliance, and market outcomes. The results show that implementing the new corporate governance code leads to enhancements in the rights of shareholders, the dynamics of the board, and the financial performance of the firms. The results make a strong case for good governance frameworks to facilitate sustainable economic development in emerging economies. With these challenges in mind, Jordan should continue its efforts and strengthen its corporate governance system. By doing so, Jordan is going to set an example for the regional emerging markets to follow by showing its commitment to good governance practices. The enhancement will not only help the business environment but also attract foreign investments that might bring along economic development. In this respect, reforms brought under Jordan's Corporate Governance Code 2017 have been instrumental in improving corporate governance practices, increasing transparency, and building confidence in investors. Challenges persist, though, and Jordan needs a proactive approach to get them addressed. Through such means, Jordan will be able to move further toward an improved corporate governance framework that can be aspired to by other emerging markets in the region.

JEL Classification: *G34, K22, O16, & P34*

1. Introduction

Good corporate governance is essential for the proper functioning of an economy, enabling appropriately functioning companies that protect the interests of shareholders, stakeholders, and society [19]. Being fully aware of the importance of good governance practices, Jordan has been actively working toward an improved corporate governance framework in its country, attracting foreign investment, maintaining stability in financial markets, and encouraging sustainable economic growth, resulting in a major reform: the JCGC (JCGC), promulgated at the end of 2017 [7, 12, 26]. The purpose of this paper is to examine the corporate governance regulations in Jordan, more specifically, the regulation of the JCGC as amended in 2017. In the Jordanian context, beyond the legislative and regulatory approach, corporate governance is related to the stakeholders' significance for the company and how they are treated [2]. The present study falls under the call in the emerging countries for more investigations on the issue of corporate governance. This study builds on the fact that the diversity and scope of the research in the Jordanian context have received scant study. Enhancing the level of governance in companies is the primary challenge that capital markets face.

Some of the key areas that this code has essentially outstretched are bored composition and structure, transparency, disclosure, risk management and internal controls, and the rights of shareholders and stakeholders [12]. Jordan adopts the new JCGC in an effort to inspire a culture of transparency, integrity, and accountability in its corporate sector. This should result in confidence for investors, and ensure that there is fair competition to foster growth and value creation in a sustainable manner [4, 5, 20]. In addition, Jordan aims to gain more international recognition by aligning its corporate governance practices with international standards to lure foreign direct investment, because nowadays investors are considering opportunities only in those regions that emphasize the elements of good governance and responsible business practices [8].

In addition, the enhanced corporate governance regime in Jordan will increase the shock-absorbing capacity of Jordan's financial markets [16]. Companies in Jordan, with a very strong structure of corporate governance, are better equipped to handle various risks and problems, reduce fraud and abuse, and deal effectively with business issues [6, 21]. In so doing, this may create stability and confidence in the financial sector, thus facilitating the attraction of national and international investors [6]. In a nutshell, Jordan is committed to strengthening its framework on corporate governance, a fact that demonstrates the country's realization of good governance impetus for economic growth and investment attraction, as well as sustainability in business operations [19]. The revised JCGC represents the most important step forward by the country to bring the country's corporate governance regime closer to best international practice, with increased emphasis on transparency, accountability, and good corporate behavior [7, 12]. This is a clear reflection of Jordan's continued commitment to implementing good governance practices and the enabling environment that can foster a strong, resilient, and thriving business sector.

The study investigates in-depth the major disparities that existed in corporate governance procedures in Jordan before the year 2017, and the subsequent improvements which have been made after the same period. It identifies and then examines the main inadequacies and shortcomings that have marked the practices of corporate governance in Jordan pre-2017. Moreover, the research looks into how those deficiencies were effectively addressed by reforms introduced in 2017, and it further looks into quantifiable outcomes and challenges found with respect to the implementation of those reforms. This research should contribute to a better understanding of best practices and areas for further improvement through a wide-ranging analysis of the evolution and impact of corporate governance in Jordan.

The relevance of the paper is driven by the fact that corporate governance has soared to the main laws on companies as a result of technological developments which have allowed the markets to extend beyond the horizon in their geographical reach. The aim of this study is to determine whether the implementation of the new corporate governance regulation in Jordan will be enough to improve the operation of markets and restore investors' confidence in relation to corporate governance. The originality of the paper lies in the identification of significant corporate governance patterns.

2. Literature Review

It is essential to take into account the examination of empirical studies on corporate governance practices as a starting point for advancing knowledge on the topic. Corporate governance, as a field of financial economics, has provided wide evidence of the role of multiple determinants in solving information asymmetry tensions between shareholders and other stakeholders [5, 11, 13, 22]. Different theories in corporate governance have been developed and tested in the last decades. One of the main original theories in corporate governance is the agency theory. Its objective is to help solve agency issues that represent the conflict between managers and shareholders of a company [1, 13]. The first source of these conflicts concerns the alignment of managerial and shareholders' interests, and these conflicts may result in the direction of the company being of less interest to shareholders. In terms of the internal financing of the company, managers may choose to overinvest to expand a corporate empire, and they may choose to use cash to increase the size of the company at risk. In terms of the ability of the company to generate and retain profits in the future, managers are also more inclined to take risks and invest in high-risk large investments [8, 10, 15]. In other words, the concept of conflict examines the use of company resources, investment policies, and financing that directly conflicts with the interests of the agency.

Other theories such as stewardship theory and critical race theory have been developed to tackle potential corporate governance conflicts. Since the work with agency theory, most corporate governance research, including the empirical research that will be reviewed in this study, has been based on cross-sectional data analysis. These data analyses have led to significant corporate governance advances such as the separation of ownership and control, with associated advantages, but the conflicts hypothesis or the theory of the set of shareholders of the firm [1, 4, 15, 17]. The theory of agency costs focuses on ownership structure, possession of the majority, and the duality of the Chief Executive and Chairman. Agency theorists argued the relation between ownership structure and corporate performance, arguing that privately owned or concentrated ownership should decrease agency costs and ensure efficient safeguarding of shareholder rights [16]. In other words, when managers are simultaneously owners or have a high proportion of shares, the agency's problem with shareholders will be less pronounced. However, the ownership structure of the company changes frequently. According to the agency theory of ownership, the most predominant ownership is the achievement of effective monitoring of managers who are agents of stockholders. Such investors have a high level of wealth in the company because they maximize the value of their shareholders. The proxy for a good manager's sorting power in the composition of the board of directors is an inefficient association that is governed. Depending on the work, the majority of the board of directors is generally better equipped to solve the issues related to agency classification.

2.1 Concept of Corporate Governance

Corporate governance is an important concept that has started to acquire its importance locally and internationally in the business sector. This significance is due to considering governance as the basis for improvement and sustainable development in companies' activities [2, 9]. The developed concept of corporate governance includes not only the legislation, regulations, and procedures that should be put in place to set the rules that govern the relationship and the balance between the board of directors, managers, investors, and other parties that represent mortgagees, guarantors of the rights of these parties, and the disclosure of the methods and policies of governance, but also a set of ethical practices and rules that rationalize, develop, organize, and maximize the role and responsibilities of each of the parties represented in the framework of governance, through procedures and applied solutions capable of achieving the goals and objectives of these parties and serving the interests of the company and society as a whole [4, 7,23]. The core of good corporate governance is to build strong rules of fairness, transparency, independence, credibility, responsibility, accountability, and flexibility in the balance of power between the company's governance parties [3, 14]. The purpose of this is to ensure the elimination of any imbalance of interests between the company's various governance parties, as the absence of any party at the expense of others could lead to the loss of the company's interests, which has many requirements that promote the dissemination of the concept of corporate governance and its practices, such as the activity of effective business management that adopts the values of responsibility, transparency, and credibility so that companies can realize their economic objectives and succeed in achieving their organizational goals [4, 11].

2.2 Corporate Governance Practices in Jordan

Jordan follows an Anglo-American model of corporate governance practice in many ways. The use of Anglo-American corporate governance practices in Jordan began long ago. With the further development of the capital market in Jordan, the need for investors, debtors, creditors, and other stakeholders to protect their investments has increased. In this context, the corporate governance system should provide a better opportunity to protect the wealth of the shareholders and creditors [16, 24]. The lack of stakeholder protection may lead to a loss of trust between them and the company [9]. Consequently, the cost of operations may increase. The global demand for assurance of the credibility of financial information has emphasized the role of corporate governance rules to strengthen the concept of fairness, trust, and integrity within the continuously widened international capital market [9]. The global financial crisis that has been recently witnessed by many countries has highlighted the importance of corporate governance in maintaining market stability. This has drawn attention to understanding corporate governance disclosure, regulation, rules, and practices to ensure that the financial market continues to operate effectively [11, 25]. This is of crucial importance for any country. It has been universally recognized that a code of good corporate governance practices increases the confidence of potential and existing investors. The code may also serve as a vehicle for reform if it is designed to be achievable, performance-oriented, and flexible.

3. Corporate Governance in Jordan Before 2017

3.1 Regulatory Environment

The first Corporate Governance Code was enacted in 2009 and served as an important milestone in establishing basic principles of governance practices within Jordan [1, 9]. However, it also faced severe criticisms concerning the lack of an effective enforcement mechanism and the absence of comprehensive provisions related to key areas of Board independence, transparency of related-party transactions, and reporting on ESG factors [16, 19].

3.2 Key Weaknesses

Low Board Independence: Most of the boards had insiders with hardly any, if a few, independent directors to represent them, thereby causing conflicts of interest. In most cases, decisions are taken without divergent perspectives and checks and balances within the board, hence always favoring the interests of the few rather than the whole company. As such, the stakeholders may feel at a disadvantage due to the limited representation of independent directors [3, 9 ,18, 26].

Inconsistent Disclosure: The financial and non-financial disclosures were either inadequate or delayed, thus the shareholders and other stakeholders had to remain in the dark regarding the actual state of affairs relating to the company. The lack of transparency will lead to erosion of trust apart from hampering informed decisions by investors. Companies are supposed to provide timely, comprehensive disclosures to create a level playing field for all shareholders [11, 15].

Limited Shareholder Rights: It was difficult for a minority shareholder to make representations in corporate decisions. In fact, the great majority shareholders relegated the voice of the minority shareholders. As a result, the influence of shareholders on such significant decisions as appointments to the board or major transactions was very limited. Strengthening shareholder rights is an essential step toward accountability and fairness in corporate governance [16].

Weak enforcement: The regulatory bodies did not have the capacity for uniform enforcement, and there was a general laxity in oversight. This resulted in the absence of any consequences for wrongdoing in corporate conduct, deterring responsible behavior and raising the risks to which stakeholders are exposed. It is important to build up the enforcement capabilities of regulatory bodies within the context of a sound regulatory framework, which provides both accountability in corporate matters and market integrity [1, 27].

4. Reforms Introduced in 2017

In all, the 2017 reforms marked a point in the consideration of changing Jordan's corporate governance environment, with determination now directed toward full compliance with the highest possible standards set up internationally, thus remedying the weaknesses and inefficiencies inherent in the earlier framework. The reforms were developed in a way that tends to increase the strength of the corporate atmosphere, including transparency, and encourage accountability, integrity, and responsibility in business. The comprehensive reforms introduced a wide range of innovative measures, from empowerment of shareholders through enhanced independence and effectiveness of the board. These reforms provided a greater opportunity for participation by shareholders in the company's affairs and thus gave them better access to all relevant information that would support informed decisions to hold management accountable [9, 12, 16].

The reforms focused on making sure that there is indeed independence within the board through very strict and stringent criteria for appointment to that position, adding competence, diversity, skills, knowledge, and experience, which characterizes and assures that members can oversee and conduct corporate activities efficiently and effectively. Accordingly, with increased independence, boards reduce conflicts of interest, thus creating a climate of transparency and mutual trust. The 2017 reforms also aimed at enhancing the governance and functionality of board committees [9, 12, 13].

The reforms encouraged the setting up of specialized committees, such as audit and remuneration committees, to strengthen the internal control mechanisms and facilitate the effective monitoring of key areas. Such committees are made up of independent directors, a very important feature in ascertaining that the interest of the shareholders is taken care of, and financial reporting is represented accurately and reliably [12, 17].

Being cognizant of how cardinal the principles of transparency and disclosure are to corporate governance, these reforms imposed quite stringent reporting obligations on listed companies. Beyond the improvement of quality and timely financial reporting, requirements have even gone the length and breadth of disclosing nonfinancial essential information such as ESG no longer a choice but a fact. These reforms have sought to inspire investor confidence and attract foreign investment, and eventually promote sustainable economic growth that is sustainable through providing comprehensive and reliable information to stakeholders [12, 16].

The 2017 reforms also sought to grant more empowerment with regard to the enforcement of regulations concerning corporate governance. This was by setting up an independent regulatory authority competent in the enforcement of compliance and penalties arising out of such non-compliance. These measures were, therefore, to make sure the newly introduced set of standards is adhered to strictly, with a view to instilling a culture of responsibility, accountability, and ethical conduct within the corporate sector [12, 13].

4.1 Enhanced Board Composition

A requirement that at least one-third of the composition of the board comprises independent directors, and introduction of guidelines for diversity, including gender representation [14]. More far-reaching reforms in enhancing the level of good governance practices in the following manner: At least 33.33% membership will be independent directors to provide balanced decision-making and reduce risk due to possible conflict of interest [12]. Further, considering diversity to be an important factor, full guidelines on inclusion should also be highly integrated, especially regarding gender. One must not underestimate the power of diverse perspectives and experiences in driving innovation, guaranteeing fairness, and ensuring an inclusive boardroom. These initiatives would allow an organization to remain ethical while unleashing the true potential of a board for sustainable growth and success in the long run [14].

4.2 Improved Transparency

Quarterly financial reporting is, therefore, a must to be taken up by organizations in their journey to present their results transparently and accurately [3]. Such reports present insights that may be useful for the company's stakeholders in making economically useful decisions [4]. Full disclosure of related-party transactions is important in promoting greater accountability and inhibiting fraud. Clear and concise guidelines enable the companies to make proper disclosure for any transaction that may involve related parties, including but not limited to directors and executives or entities related to such directors and executives [4]. It ultimately helps in instilling confidence among investors, regulators, and stakeholders. In recent times, Environmental, Social, and Governance reporting has been one of the key factors in the corporate world.

ESG reporting allows a business organization to gauge and report on its impact on the environment, society, and corporate governance. Companies can take responsibility for pressing global issues with integrated sustainability considerations within their reporting practice and help contribute to a more sustainable future [7]. Such initiatives, if expanded, will make sure the financial reporting needs are fulfilled but also embed a culture of openness, integrity, and a sense of responsibility while doing business. It assists an organization in making a constructive contribution toward various stakeholders like investors, employees, customers, and society as a whole. With the transformation in the corporate world, companies must understand these reporting duties and be representative of the feasibility of sustainability for their endurance and growth [7, 12].

4.3 Strengthened Shareholder Rights

It is highly required to have more transparent procedures for placing proposals and resolutions, especially those that will give more power to minority shareholders. This will further ensure that corporate governance is promoted along with inclusivity in active decision-making [12, 23]. The process, therefore, cannot be overemphasized because it contributes toward a better and fair corporate world that is responsive to the interests of all shareholders.

4.4 Enforcement Mechanisms

Empower regulatory bodies, such as the Jordan Securities Commission, with heavy penalties and sanctions for non-compliance to further strengthen their powers in ensuring compliance with regulatory frameworks that protect investors. The increased powers will, on one hand, enable these bodies to deal with and prevent cases of non-compliance in a more effective way and, on the other hand, nurture a culture of compliance that strengthens the stability and credibility of the financial markets [12, 25].

Such enhanced penalties include heavy fines, suspension or revocation of licenses, and even legal actions that could strongly deter market participants from being non-compliant. It is an empowered approach that not only protects investors' interests but also strengthens the integrity and reputation of the entire financial sector on principles of transparency, fair market practices, and long-term sustainable growth [3, 16].

4.5 Focus on Voluntary Disclosure

The revised Code significantly encourages all companies, regardless of their size and background, to take concrete steps towards the holistic implementation of Corporate Social Responsibility into the core of their business practices [7, 12]. This involves an alignment with the overall societal goals of long-term objectives in regular business practices. It is by paying due regard to this aspect of CSR that companies can go a long way in making a difference to the environment, society, and its stakeholders [15, 26]. This code enables the company to contribute meaningfully and play their role as active corporate citizens.

5. Research Method

This study utilizes a comparative and descriptive research design to investigate corporate governance in Jordan, both prior to and following the introduction of the 2017 corporate governance framework. Secondary data (which includes annual reports, regulatory documents, and financial statements of listed companies) is gathered for two distinct periods: The data was divided into pre-reform (2013–2016) and post-reform (2018–2021) with the year 2017 considered as transitional. The sample only includes those firms that are present in both periods and for which data is available and who report in accordance with the standards. Board of directors, ownership, transparency, and regulatory compliance are examined by using descriptive analysis. This method includes content analysis to identify the existence of substantial variation. The corporate governance code of 2017 serves as a standard with which to compare the results; thus, it reveals strong and weak points.

This method though provides a comprehensive evaluation of the impacts of these reforms on the corporate governance practices in Jordan but also takes into account of some factors that may affect these practices. For example, it is crucial to understand that the effect can be different (due to the context). This understanding is important because it shows that governance reforms are not a simple process in a particular area. However, the structured approach guarantees that all the factors are considered in the process.

6. Comparative Analysis of Governance Practices

6.1 Compliance Trends

The reforms led to notable improvements in compliance rates and governance quality, as illustrated in Table 1.

Table 1: Key Governance Metrics (Pre-2017 vs. Post-2017)

Metric	Before 2017	After 2017	Change (%)
Independent Directors (%)	20	35	+75%
Timeliness of Disclosures	60	90	+50%
Minority Shareholder Voting (%)	50	68	+36%
ESG Reporting (%)	Minimal	45	Significant Adoption

Table 1 highlights significant improvements in key governance metrics in Jordan following the 2017 corporate governance reforms. The percentage of independent directors increased from 20% to 35%, reflecting a 75% improvement, indicating a stronger focus on enhancing board independence. Timeliness of disclosures rose from 60% to 90%, a 50% increase, showcasing greater compliance with reporting requirements. Minority shareholder voting participation improved by 36%, rising from 50% to 68%, suggesting enhanced shareholder rights and inclusivity. Additionally, ESG (Environmental, Social, and Governance) reporting shifted from minimal levels pre-2017 to 45% adoption post-2017, marking significant progress in corporate sustainability practices. These changes collectively demonstrate the positive impact of the reforms on corporate governance standards.

5.2 Financial Performance and Market Outcomes

Table 2: Financial Metrics (Pre-2017 vs. Post-2017)

Indicator	Before 2017	After 2017	Change (%)
Average Return on Equity (ROE) (%)	8.5	10.2	+20%
Market Capitalization (JD)	18 billion	24 billion	+33%
Foreign Direct Investment (FDI) Inflows (JD)	900 million	1.3 billion	+44%

Table 2 illustrates the financial performance of companies in Jordan before and after the 2017 corporate governance reforms, highlighting notable improvements. The average Return on Equity (ROE) increased from 8.5% to 10.2%, reflecting a 20% growth, indicating enhanced profitability and efficient use of shareholder capital. Market capitalization grew from JD 18 billion to JD 24 billion, a 33% rise, showcasing increased investor confidence and valuation in the market. Foreign Direct Investment (FDI) inflows rose significantly by 44%, from JD 900 million to JD 1.3 billion, suggesting greater international interest and improved economic stability post-reforms. These financial metrics demonstrate the positive economic impact of the governance changes. The improvements in financial metrics suggest that stronger governance frameworks positively impact market performance and investor confidence.

7. Challenges and Limitations

7.1 Implementation Challenges

The high compliance costs for smaller companies: There is also cultural resistance to governance reforms, especially in the case of family-owned businesses, which has constantly hampered growth and innovation in the corporate sector. In many instances, this resistance comes from long-established cultural traditions or value systems that are so deeply engraved in society that they create serious barriers to the embracing of good governance practices and, consequently, the long-term survivability and competitiveness of a company. In this regard, it is relevant to underline that the solution proposed must be holistic and tailor-made, dealing not only with economic and regulatory issues but also with the cultural nuances deeply ingrained in the way small businesses operate.

Knowledge of the nature and rationale of the resistance to change process will enable the policy makers, key industry players and other stakeholders involved in formulation of change strategies to socially construct cogent innovative strategies that reconciles change with conservation of tradition and cultural fabrics whilst addressing issues of reforms in the governance frameworks. Efforts to reduce compliance costs must therefore be comprehensive, and consider the peculiar circumstances of SMEs while at the same time maintaining competitiveness. It could also refer to immaterializing or rationalizing of processes about certain regulatory authorities, relieving certain obligations about reporting or even offering incentives where incentives are given.

Meanwhile, the only way to surmount cultural resistance is gaining an understanding of habits, values, and norms in family-owned businesses through generations. Hence, an enabling environment via open dialogue, awareness creation, and education of the owners on the benefits accruable from good governance will see incremental but sustainable reforms being recorded. An approach that would not only recognize corporate heritage and culture but simultaneously promote positive change in the right direction toward more openness, accountability, and greater resilience within the organization. Taking down the barriers created through cultural resistance to governance reforms will provide small firms with an enormous transformation opportunity to thrive and capitalize on emerging opportunities.

These companies would bring in increased operational efficiencies, devise better ways of managing risks, and improve long-term growth possibilities through progressive methodologies. They would make the economy more dynamic and inclusive in nature. So, all the stakeholders are to be made aware of this move's importance and should work together in overcoming cultural resistance so that a better future is ensured not only for family-owned businesses but also for the entire business world.

7.2 Enforcement Gaps

Despite continuous efforts to enhance the effectiveness of the reforms, it is crucial to acknowledge that the inconsistent enforcement across various sectors has significantly undermined their overall impact. In order to truly maximize the potential and benefits of these reforms, it becomes imperative to address and rectify the inconsistencies in enforcement, ensuring that all sectors adhere to the established standards. By doing so, we can create a more cohesive and harmonized environment that fosters the desired positive changes and advancements brought about by these reforms. It is only through consistent and equitable enforcement that we can truly realize the full potential and transformative power of these reforms, ultimately leading to a more prosperous and equitable society.

7.3 Limited Stakeholder Awareness

Many stakeholders, including minority shareholders, who play a crucial role in the business, remained completely unaware of their fundamental rights and entitlements under the comprehensive and recently updated code, which aims to safeguard their interests and provide fair and equitable treatment within the company's operations and decision-making processes.

8. Conclusion

The recent changes made to the Jordan’s Corporate Governance Code in 2017 have greatly enhanced the levels of governance, transparency and investor confidence. However, as soon as the practice of such reforms began, a positive shift in the corporate environment of Jordan occurred, during which companies gradually began to accept higher standards concerning the indicators of governance. Therefore, it has introduced not only more transparency but also enhanced investors’ confidence towards taking actions in the probable directions for development. However, such positive changes notwithstanding, the challenges remain. One of the issues of many businesses is the price they have to pay in terms of compliance to navigate a hostile and complicated regulatory environment. In addition to this, compliance gaps are one of the biggest barriers to the practical application of the code of governance. Lack of enforcement has to be addressed appropriately by the authorities to ensure that accounting of actions by firms is done where necessary. However, cultural resistance is also mentioned as one of the challenges to the adoption of the Corporate Governance Code.

Decision-making processes within organizations in Jordan often bear a representative character of cultural influence. Cultural resistance has to be met with educational and awareness-raising schemes that extol the benefits of good governance practices. Promoting accountability and transparency within the broader culture will go a long way toward consolidating the framework of corporate governance in Jordan. With these challenges in mind, Jordan should continue its efforts and strengthen its corporate governance system. By doing so, Jordan is going to set an example for the regional emerging markets to follow by showing its commitment to good governance practices. The enhancement will not only help the business environment but also attract foreign investments that might bring along economic development. In this respect, reforms brought under Jordan's Corporate Governance Code 2017 have been very instrumental in improving practices on corporate governance, increasing transparency, and building confidence in investors. Challenges persist, though, and the case for a proactive approach by Jordan in getting them addressed. Through such means, Jordan will be able to move further toward an improved corporate governance framework that can be aspired to by other emerging markets in the region.

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The Impacts of VAT on the Retail Supply Chains of Kashtban Trading Company in Dubai

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A B S T R A C T

This paper examines the impact of Value-Added Tax (VAT) implementation on Kashtban Trading Company's retail supply chains and clothing industry operations in Dubai. Using a quantitative survey design, data were collected through structured questionnaires and analyzed using Structural Equation Modeling - Partial Least Squares (SEM-PLS). The findings reveal significant positive effects of VAT on operational processes, financial performance, consumer behavior, and market positioning. VAT compliance was found to enhance operational efficiency and transparency while contributing to improved financial outcomes, particularly in the clothing sector. Consumer purchasing patterns showed moderate sensitivity to VAT-induced pricing adjustments, highlighting the need for adaptive strategies to maintain market competitiveness. The study provides actionable insights into VAT's multifaceted implications, demonstrating how regulatory compliance can drive organizational improvement when aligned with strategic objectives. These findings contribute to the literature by offering an organization-specific perspective on VAT impacts in dynamic market contexts.

JEL Classification: *H25, L81, M41, C83, & R51.*

1. Introduction

Value-Added Tax (VAT) is a critical fiscal policy tool adopted by governments globally to generate revenue and drive economic growth. As an indirect consumption tax applied at each stage of production and distribution on the value added to goods and services, VAT is ultimately borne by the final consumer. While VAT has been widely used in Europe for decades, its introduction in Gulf Cooperation Council (GCC) countries, including the United Arab Emirates (UAE), represents a strategic move toward diversifying income sources away from oil dependency (Alsharari et al., 2023). The UAE implemented VAT at a standard rate of 5% on January 1, 2018, as part of its Vision 2030 economic diversification strategy. VAT revenue supports public services, infrastructure development, and fiscal sustainability. Despite these advantages, VAT compliance introduces significant challenges for businesses, particularly in understanding and managing VAT-related processes (Hajri, 2023). One of the critical challenges associated with VAT is tax evasion, which undermines revenue collection and impairs the efficiency of the tax system. Tax evasion involves illegal practices such as underreporting income, inflating deductions, and falsely claiming exemptions, all of which significantly impact governmental revenues (Feltenstein et al., 2022). In the UAE, VAT non-compliance disrupts market competition and erodes public trust in tax policies (Dwekat, 2023).

Kashtban Trading Company operates an extensive retail supply chain in Dubai, catering to a diverse customer base. As a prominent player in the clothing sector, it faces the complexities of VAT compliance while striving to maintain operational efficiency and competitiveness. This study seeks to explore how VAT influences Kashtban Trading Company's operational processes, financial performance, consumer behavior, and overall market positioning. The implementation of VAT has introduced a new layer of complexity for retail supply chains, particularly in the clothing industry. For Kashtban Trading Company, ensuring compliance with VAT regulations while sustaining profitability is a significant challenge. The company must address increased administrative burdens, adjust pricing strategies, and adapt to shifts in consumer purchasing behavior influenced by VAT. Additionally, financial pressures and potential cash flow constraints necessitate a reevaluation of supply chain operations and cost management practices. These challenges underscore the need to examine the specific impacts of VAT on Kashtban Trading Company's retail supply chain. Key areas of focus include financial performance, consumer behavior, and market positioning in Dubai's competitive landscape. This paper also addresses the profound effects of VAT evasion on revenue collection. Tax evasion not only reduces governmental income but also creates unfair market competition, weakens the integrity of tax systems, and hinders economic growth. The UAE faces unique challenges in mitigating VAT evasion due to its diverse business landscape and the relative novelty of its tax system. Factors such as insufficient awareness, inadequate compliance mechanisms, and complex regulations exacerbate VAT evasion (Mohamadi, 2022).

Kashtban Trading Company exemplifies the complexities of VAT compliance within a retail supply chain. Operating in a competitive clothing industry, the company must navigate challenges such as VAT registration, input-output reconciliation, and changing consumer behavior influenced by tax burdens. The risk of VAT evasion within supply chains further highlights the necessity for robust tax administration and enforcement mechanisms (Hajri, 2023). Thus, this study aims to analyze the implications of VAT on Kashtban Trading Company's retail supply chain, focusing on operational processes, financial performance, and market positioning. By addressing these challenges, the research seeks to provide actionable insights to improve VAT compliance and enhance the company's adaptability to regulatory requirements. The findings will also contribute to the broader understanding of VAT's effects on the retail clothing industry in the UAE, offering strategies to mitigate negative impacts and leverage new opportunities arising from VAT implementation.

2. Literature Review

The global supply chain (SC) economy has faced unprecedented challenges in recent years due to uncertain events such as the COVID-19 pandemic and extreme weather conditions. These disruptions have necessitated novel approaches to supply chain management (SCM), emphasizing resilience, sustainability, and adaptability in the face of uncertainty (Ho et al., 2015). The integration of uncertainty analysis and optimization modeling (UAO) into SCM has emerged as a critical area of research, focusing on mitigating risks and enhancing decision-making processes under unpredictable circumstances (Ivanov et al., 2017). A comprehensive review of literature on UAO in SCM reveals a growing body of work that addresses the complexities of global supply chains. From 2015 to 2022, 121 articles from 44 international academic journals were systematically reviewed using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework. Bibliometric analysis and tools like CiteSpace were employed to identify trends and summarize research characteristics, highlighting key areas such as decision-making, risk management, and resilience building in supply chains (Niu & Shen, 2020). Uncertainty in supply chain operations is multifaceted, encompassing demand fluctuations, supply disruptions, and infrastructure vulnerabilities. Studies such as those by Behzadi et al. (2018) and Huang et al. (2019) underscore the importance of robust and resilient approaches to managing these uncertainties. These approaches often involve abstract modeling of decision problems to derive actionable insights, ensuring operational continuity even in adverse scenarios.

The COVID-19 pandemic has amplified the need for effective SCM strategies, as companies grapple with increased uncertainty in demand and supply dynamics. Research by Abouee-Mehrizi et al. (2021) and Li & Mizuno (2021) highlights the role of data-driven inventory management and dynamic pricing strategies in enhancing supply chain resilience during crises. Similarly, Niu et al. (2022) explored the impact of uncertainty on production and purchasing decisions, emphasizing the need for innovative process designs and strategic investments. Sustainability in supply chain management has also garnered significant attention. Studies by Silvestre (2015) and Farooque et al. (2019) delve into sustainable supply chain management (SSCM), exploring the challenges faced by developing economies and proposing strategies for achieving environmental and social objectives alongside economic goals. These works highlight the interplay between global value chains, institutional frameworks, and sustainability drivers, providing a roadmap for integrating sustainability into SCM practices. Risk management remains a cornerstone of SCM research. Ho et al. (2015) identified key risk categories, including macroeconomic risks, demand risks, and manufacturing risks, while Ivanov et al. (2017) proposed recovery measures to address disruptions. The integration of behavioral factors, big data technologies, and artificial intelligence into SCM has been suggested as a future direction to enhance risk mitigation and decision-making capabilities (Saberi et al., 2019).

Alsharari et al. (2023) analyzed the implementation of VAT in the Gulf Cooperation Council (GCC) countries, with a focus on the UAE. The study emphasized VAT as a critical tool for economic diversification away from oil revenue dependency. It highlighted that VAT compliance challenges arise due to businesses' lack of readiness and insufficient understanding of tax laws. The study recommended enhancing corporate awareness and establishing robust enforcement mechanisms to improve VAT compliance and revenue generation. Feltenstein et al. (2022) developed a general equilibrium model to analyze VAT evasion in Pakistan. The study found that increased spending on tax enforcement significantly improves VAT revenue collection without negatively impacting long-term GDP. It demonstrated the importance of stricter enforcement and compliance measures to address revenue losses caused by VAT evasion.

Gopakumar et al. (2022) studied the sectoral impacts of VAT in the UAE by examining stock market data. The results revealed that certain industries, such as retail and insurance, showed greater sensitivity to VAT implementation. The study underscored the need for targeted policies to mitigate sector-specific challenges arising from VAT. Hajri (2023) explored the role of VAT in achieving the UAE Vision 2030. The study identified several administrative challenges, including insufficient human resources, limited public awareness, and the complexity of VAT reconciliation processes. It recommended capacity building within the Federal Tax Authority and streamlined VAT procedures to improve compliance. Oseni (2018) examined the effects of VAT on government revenue generation in Nigeria. The study found that SMEs faced significant compliance burdens, such as high administrative costs and complex filing requirements. Oseni recommended simplifying VAT processes and providing support for SMEs to enhance compliance and revenue generation. Dwekat (2023) studied the implications of VAT evasion on economic performance in the UAE. The study highlighted that VAT evasion distorts competition and undermines fiscal stability. It identified factors such as a lack of awareness, insufficient enforcement, and loopholes in tax legislation as contributors to VAT evasion.

Shahata (2020) investigated the role of digital transformation in improving VAT compliance in Egypt. The study found that digitizing tax administration reduces compliance costs, enhances transparency, and minimizes opportunities for tax evasion. It recommended the adoption of advanced digital tools for tax management in the GCC. Fentaw (2022) examined VAT auditing in Ethiopia and its effects on consumer behavior and market competition. The study highlighted that non-compliance by certain businesses creates unfair advantages, distorting market dynamics. It called for regular VAT audits and consumer education campaigns to address these issues. Huang et al. (2022) examined the management of social responsibility within multitier supply chains, focusing on a three-tier structure involving a tier 2 supplier, a tier 1 supplier, and a tier 0 buyer. The study analyzed how responsibility violations in lower-tier suppliers can harm all parties involved and explored equilibrium strategies for improving responsibility efforts across the supply chain. Using a game-theoretic model, the research highlighted three extreme strategies: direct control, delegation, or no effort, with the optimal approach determined by various drivers. Interestingly, the study found that external pressures from stakeholders like governments and non-governmental organizations can sometimes backfire, resulting in reduced responsibility levels. The study provides practical insights for managing risks in multitier supply chains and offers strategies for external stakeholders to encourage responsibility without unintended negative consequences. These findings are particularly relevant for businesses navigating complex supply chain structures, such as those influenced by tax compliance or social responsibility issues.

Gopakumar et al. (2022) investigated the sectoral effects of Value-Added Tax (VAT) implementation in the UAE, focusing on stock market responses. Using an event study methodology, the research analyzed 19 announcements related to VAT implementation between 2015 and 2018. The study revealed significant sectoral differences in abnormal returns, with industries such as insurance and retail displaying heightened sensitivity to VAT-related announcements. Additionally, certain announcements were found to exert a more pronounced impact than others, emphasizing the varying degrees of VAT's influence across sectors. The findings provide valuable guidance for policymakers and businesses in other Gulf Cooperation Council (GCC) countries considering VAT implementation, offering insights into how tax policy announcements influence market behavior and risk dynamics within specific industries. Sidek and Abdulraqeeb (2022) proposed a conceptual framework to analyze the moderating role of government support on VAT compliance among Small and Medium Enterprises (SMEs) in the UAE. Rooted in economic, psychological, and equity theories, the framework identifies key factors influencing VAT compliance, including organizational characteristics, efficacy, and the role of government support. The study emphasizes that government support, such as simplifying VAT processes and overcoming implementation barriers, significantly moderates the relationship between organizational characteristics and VAT compliance. The research contributes to the development of a governance framework that optimizes VAT compliance, highlighting the importance of targeted government interventions in improving SME adherence to tax regulations. This framework has practical implications for policymakers aiming to strengthen VAT compliance as part of broader economic and fiscal objectives.

Faheem and Alzoubi (2019) evaluate VAT in the UAE and its implications on the economy and consumer behavior. The research utilized a quantitative methodology, including surveys and exploratory analyses, to assess the historical context of VAT implementation and its effects on the UAE's economic and geopolitical environment. The study highlighted the challenges related to VAT compliance, adjustments in tax rates, and the complexities of VAT collections and refunds. Additionally, it explored the broader socio-economic implications of VAT as a policy tool and its role in addressing financial crimes and regulating offshore financial hubs. The findings emphasized the importance of tailoring VAT policies to the UAE's unique economic structure while considering lessons from other jurisdictions. Hussain et al. (2022) explored the rapidly changing tax landscape in the UAE, focusing on the interplay between VAT, excise tax, and the recent introduction of Corporate Income Tax (CIT). The study highlighted the significance of customs laws as a foundational component of indirect taxation in the UAE, playing a critical role in the assessment of duties, VAT, and excise taxes. Furthermore, it discussed the challenges businesses face in navigating customs regulations amid evolving tax policies, particularly in the context of global trade. The authors emphasized the UAE's proactive steps in ratifying Free Trade Agreements (FTAs) with India and Indonesia, underscoring customs laws' importance in facilitating international trade. The research provided practical recommendations for businesses to mitigate challenges related to customs and tax compliance in the UAE's dynamic tax environment. Krylova (2023) analyzed Dubai's role as a global hub for illicit trade and sanctions evasion, emphasizing the enabling factors that contribute to these practices, such as its strategic location, free zone policies, and financial regulations. The study identified Dubai as a significant black market for gold and other commodities, often associated with smuggling, money laundering, and other illicit activities. It further explored the vulnerabilities posed by the city’s development as a cryptocurrency hub, which exacerbates issues of transparency and jurisdictional compliance. The chapter concluded with a call for stricter due diligence measures, improved free zone regulations, and comprehensive strategies to combat illicit trade through supply chain analysis and advanced data analytics. In addition, Chen et al. (2023)

conducted a systematic review of uncertainty analysis and optimization modeling (UAO) in supply chain management (SCM), highlighting the critical role of these methodologies in addressing the challenges posed by uncertain global events such as COVID-19 and extreme weather. By analyzing 121 articles published between 2015 and 2022 using the PRISMA framework, the authors identified significant advancements in the application of UAO to SCM.

One of the key strengths of the studies lies in their diverse methodologies and focus areas. For instance, Huang et al. (2022) contribute significantly to the understanding of social responsibility in multitier supply chains, offering actionable strategies for managing responsibility across tiers. This focus is highly relevant in today’s interconnected supply chain networks, where lower-tier supplier violations can have cascading effects. Similarly, Chen et al. (2023) provide a systematic evaluation of uncertainty analysis and optimization modeling (UAO), emphasizing its critical role in enhancing decision-making under uncertainty, particularly in resilience and emergency management. This perspective aligns with the current global challenges posed by events such as COVID-19 and climate change, offering a timely reference for both academia and industry. The studies on VAT, particularly those by Gopakumar et al. (2022) and Faheem and Alzoubi (n.d.), provide empirical and conceptual insights into the economic and behavioral implications of VAT implementation in the UAE. These works highlight sectoral sensitivities, compliance challenges, and the socio-economic impacts of taxation, which are pivotal for policymakers and businesses in adapting to new fiscal frameworks. Additionally, Hussain et al. (2022) shed light on the evolving tax environment in the UAE, highlighting the importance of customs laws and their interplay with indirect taxes like VAT and excise duties. Their analysis underscores the complexities of global trade and taxation, particularly in rapidly transforming economies like the UAE.

3. Research Gaps

Despite their contributions, some gaps and limitations in the studies warrant attention. For example, while Chen et al. (2023) offer a comprehensive systematic review of UAO in supply chain management, their reliance on existing literature may limit the exploration of emerging practical applications. Integrating real-world case studies or field data could provide a more nuanced understanding of how uncertainty analysis and optimization models perform in dynamic, real-time environments. Similarly, while Faheem and Alzoubi (n.d.) highlight the economic and behavioral impacts of VAT in the UAE, their exploratory approach may lack the depth required for generalizability. The study would benefit from a more robust empirical framework, incorporating longitudinal data to track VAT's long-term effects on the economy and consumer behavior. Furthermore, Gopakumar et al. (2022) focus primarily on the sectoral effects of VAT on stock market performance but do not delve deeply into the broader operational and financial implications for businesses within these sectors. The study by Krylova (2023) provides a critical perspective on Dubai's role as a hub for illicit trade, offering valuable insights into regulatory vulnerabilities and the need for stricter oversight. However, the analysis is largely descriptive, with limited emphasis on quantitative evidence or actionable strategies to address the identified challenges. A more robust analytical framework integrating data-driven approaches could strengthen the study’s practical relevance. The reviewed studies collectively underscore the importance of adopting integrated approaches to manage supply chain complexities, regulatory compliance, and economic challenges. For example, the insights from Huang et al. (2022) on multitier supply chains could complement the findings from Chen et al. (2023) on UAO, offering a comprehensive framework for managing uncertainty and responsibility in global supply chains. Similarly, the behavioral and compliance insights from Faheem and Alzoubi (n.d.) could be enriched by the sectoral analyses of Gopakumar et al. (2022) and the evolving tax insights from Hussain et al. (2022). The interplay between regulatory policies, technological advancements, and behavioral factors remains a fertile ground for further exploration, offering significant potential to advance the fields of supply chain management, taxation, and economic policy.

4. Hypothesis Development

4.1 The Effect of Value-Added Tax (VAT) on Operational Processes and Financial Performance of Retail Supply Chains

The implementation of Value-Added Tax (VAT) has brought significant challenges and changes to supply chain operations globally. In the UAE, where VAT was introduced in 2018, companies like Kashtban Trading Company have had to adjust their operational processes and financial strategies to comply with the new regulations. Hussain et al. (2022) emphasize that VAT compliance requires businesses to adapt their pricing models, enhance their accounting systems, and address cash flow management issues. These operational adjustments often result in increased administrative burdens, as noted by Sidek and Abdulraqeeb (2022), who highlight the role of government support in easing these challenges for businesses, particularly small and medium enterprises (SMEs).

From a financial perspective, VAT compliance directly influences a company's profitability and cost structures. Faheem and Alzoubi (n.d.) demonstrate that the introduction of VAT in the UAE has affected consumer behavior, creating additional pressures on companies to optimize their supply chain costs while maintaining competitive pricing. This aligns with the findings of Gopakumar et al. (2022), who observed that sectors such as retail display heightened sensitivity to VAT-related announcements, leading to fluctuations in financial performance and market dynamics. Therefore, it is hypothesized that:

H1: VAT implementation has a significant effect on the operational processes of Kashtban Trading Company’s retail supply chains.

H2: VAT implementation significantly impacts the financial performance of Kashtban Trading Company’s retail supply chains.

4.2 The Effect of VAT on the Clothing Industry: Financial Performance, Consumer Behavior, and Market Positioning

The clothing industry, a key sector for Kashtban Trading Company, faces unique challenges due to VAT implementation. Faheem and Alzoubi (n.d.) noted that VAT directly impacts consumer behavior, as the additional tax burden often leads to changes in purchasing patterns and price sensitivity. These behavioral shifts necessitate strategic adjustments by businesses to maintain market positioning, including offering discounts or rethinking product pricing strategies. Similarly, Chen et al. (2023) emphasize the importance of adopting uncertainty analysis and optimization techniques to address such dynamic consumer behavior and enhance decision-making processes.

Market positioning is another critical aspect influenced by VAT. Huang et al. (2022) highlight the importance of responsibility management and transparency in supply chains, which are increasingly demanded by consumers and stakeholders in regulated environments. These factors contribute to shaping a company’s market reputation and competitive advantage, particularly in industries like clothing, where brand perception plays a significant role. Additionally, Gopakumar et al. (2022) suggest that VAT's sectoral impacts are uneven, with industries like retail and clothing experiencing more pronounced effects. Their findings indicate that the clothing industry must navigate heightened financial pressures while adapting to regulatory changes to sustain its competitive edge. Thus, it is hypothesized that:

***H3**: VAT implementation significantly affects the financial performance of Kashtban Trading Company’s clothing industry operations.*

***H4**: VAT implementation influences consumer behavior in the clothing industry, leading to changes in purchasing patterns.*

***H5**: VAT implementation impacts the market positioning of Kashtban Trading Company in the clothing industry.*

The development of these hypotheses is grounded in the existing literature on VAT’s implications for operational processes, financial performance, consumer behavior, and market positioning. By examining these hypotheses in the context of Kashtban Trading Company as in Figure1, this study aims to provide actionable insights into the challenges and opportunities presented by VAT implementation within Dubai’s retail and clothing sectors.

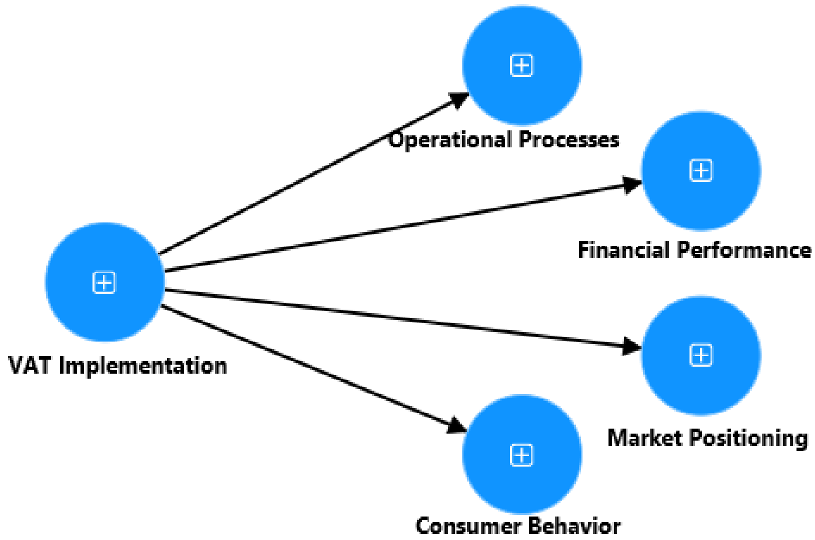

Figure 1. Research Model

5. Methodology

This study adopts a quantitative survey design to explore the impact of VAT on Kashtban Trading Company’s operational processes, financial performance, consumer behavior, and market positioning. The quantitative approach enables the systematic collection and analysis of data, providing generalizable findings and facilitating the identification of relationships between VAT-related variables and their effects on the company's retail supply chains. The survey method, with its structured design, ensures a focused examination of the research hypotheses while allowing for both numerical and narrative data collection. To gather the necessary data, structured **questionnaires** were developed and distributed to employees across various departments at Kashtban Trading Company. These questionnaires included a combination of Likert-scale questions and open-ended prompts to capture both quantitative metrics and qualitative insights. The questions were grouped into sections addressing the specific areas of investigation, including VAT's effects on operational processes, financial performance, consumer behavior, and market positioning. To ensure reliability and relevance, the questionnaire underwent a pilot test with a small subset of participants, and adjustments were made to enhance clarity and alignment with the research objectives.

The study utilized a purposive sampling technique to target employees directly involved in VAT compliance, decision-making, and operations. The sample included representatives from key departments: operations (30-35%), finance (20-25%), sales and marketing (15-20%), senior management (10-15%), and support staff (5-10%). This distribution ensured a balanced representation of perspectives while prioritizing the departments most impacted by VAT implementation. The total sample size was set between 100 and 120 participants, based on the requirements of Structural Equation Modeling - Partial Least Squares (SEM-PLS), which recommends a minimum of 10-15 respondents per variable. This sample size allows for robust analysis while maintaining statistical validity.

Data analysis was conducted using SEM-PLS, a powerful statistical technique for examining complex relationships between variables. SEM-PLS was chosen for its ability to handle small to medium sample sizes and its dual focus on assessing both the measurement and structural models. The analysis involved two key steps. First, the measurement model was assessed for reliability and validity using metrics such as Cronbach’s Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). This ensured that the constructs accurately represented the underlying variables. Second, the structural model was examined to evaluate the relationships between constructs, testing the strength and significance of VAT’s effects on operational processes, financial performance, consumer behavior, and market positioning.

Ethical considerations were a central component of the research methodology. Participation was voluntary, and informed consent was obtained from all respondents before their involvement. To ensure confidentiality, all responses were anonymized, and the data were securely stored to prevent unauthorized access. Additionally, the data collected were used exclusively for academic purposes, further ensuring the integrity of the research process. While the methodology ensures a rigorous approach to data collection and analysis, certain limitations are acknowledged. The use of purposive sampling may limit the generalizability of the findings to other organizations or sectors. Moreover, the reliance on self-reported data introduces the potential for bias, as participants' responses may be influenced by personal perceptions or organizational dynamics. Additionally, the lack of geographical differentiation within the sample may overlook location-specific variations in VAT's impact, particularly in a diverse market like Dubai.

Overall, the research methodology provides a robust framework for investigating the effects of VAT on Kashtban Trading Company. By combining a quantitative survey design with SEM-PLS analysis, the study ensures a comprehensive exploration of the operational and financial challenges posed by VAT implementation. The findings are expected to offer actionable insights for the company while contributing to the broader discourse on VAT's implications for the retail and clothing industries. Future research may address the noted limitations by incorporating longitudinal studies or expanding the scope to include multiple organizations and regions.

The descriptive analysis of the demographic variables provides a nuanced understanding of the diversity within the study sample, reflecting its comprehensiveness and representativeness. The inclusion of employees from various organizational roles, such as senior management, operations, finance, sales and marketing, and support staff, ensures that the study captures diverse perspectives on VAT implementation at Kashtban Trading Company. Notably, the operations department accounted for 30-35% of the sample, aligning with its critical role in adapting supply chain processes to VAT requirements. Similarly, the finance department, with 20-25% representation, contributed insights into the financial implications of VAT, such as cash flow challenges and cost management. The 15-20% representation from sales and marketing provides essential consumer-focused perspectives, while the smaller but significant proportion of senior management (10-15%) offers strategic viewpoints. However, the relatively limited input from senior management may constrain the depth of strategic discussions on long-term adaptation to VAT.

The respondents' tenure at Kashtban Trading Company further enriches the analysis by providing varied levels of familiarity with the company's operations. With 55% of the participants having more than four years of experience, the study benefits from insights grounded in extensive organizational knowledge. These experienced employees are well-positioned to evaluate changes in operational and financial strategies resulting from VAT implementation. On the other hand, the inclusion of 15% of employees with less than a year of tenure offers valuable perspectives on onboarding and adaptation processes under the VAT regime. However, these newer employees may have limited ability to compare pre- and post-VAT operations, potentially narrowing their insights into long-term impacts. The departmental distribution also highlights the study's comprehensiveness in addressing VAT's multifaceted impacts. The strong representation from operations and finance ensures a focus on critical compliance and cost management challenges, while inputs from sales and marketing provide an understanding of how VAT influences consumer behavior and market positioning. The smaller representation of support staff (5-10%) offers additional operational insights but may underrepresent ground-level challenges in adapting to VAT. This proportional distribution effectively balances the need for a diverse range of perspectives while maintaining focus on the departments most affected by VAT. Despite the strengths of the sample, several limitations are noteworthy. The smaller proportion of senior management participants may limit the exploration of strategic decision-making and long-term VAT adaptation plans. Furthermore, the higher representation of operations and finance might skew the findings toward these departments' challenges, potentially underrepresenting consumer-focused insights from sales and marketing. Additionally, if Kashtban Trading Company operates across multiple locations, the lack of geographical differentiation in the sample could overlook location-specific VAT impacts, such as differences in local consumer behavior or regional regulatory nuances.

In conclusion, the demographic analysis underscores the robustness of the study sample in capturing diverse departmental perspectives and varying levels of experience. However, enhancing the representation of senior management, increasing the sample size of sales and marketing respondents, and incorporating geographical diversity could provide a more nuanced understanding of VAT's effects. These adjustments would not only address potential biases but also enrich the study’s ability to offer actionable insights into the operational, financial, and strategic impacts of VAT implementation at Kashtban Trading Company.

6. Findings

The findings from the study provide valuable insights into the impact of VAT implementation on various operational and strategic dimensions of Kashtban Trading Company. By leveraging structural equation modeling (SEM), the study evaluates the relationships between VAT implementation and key constructs such as operational processes, financial performance, consumer behavior, and market positioning. The results highlight the transformative role of VAT implementation in driving organizational efficiency, improving financial outcomes, and influencing consumer and market dynamics. Each hypothesis was tested rigorously, revealing statistically significant relationships that underscore the broad-reaching effects of VAT implementation within the retail supply chain and clothing industry operations. These findings offer both practical and theoretical contributions, showcasing how VAT compliance serves as a critical factor in enhancing organizational performance and competitiveness.

Figure (2) illustrates a structural equation model (SEM) that analyzes the relationships between five latent constructs: VAT Implementation, Operational Processes, Financial Performance, Consumer Behavior, and Market Positioning. Each latent construct is measured through multiple indicators, which are displayed as yellow blocks connected to their respective constructs through arrows. The figure also highlights the path coefficients (numerical values on the connecting arrows) that demonstrate the strength and significance of the relationships between the latent constructs. In particular, the model emphasizes how VAT Implementation influences Operational Processes, Consumer Behavior, Financial Performance, and Market Positioning. Additionally, the figure shows the loadings of individual indicators onto their respective constructs, providing insight into the reliability and contribution of each measurement item.

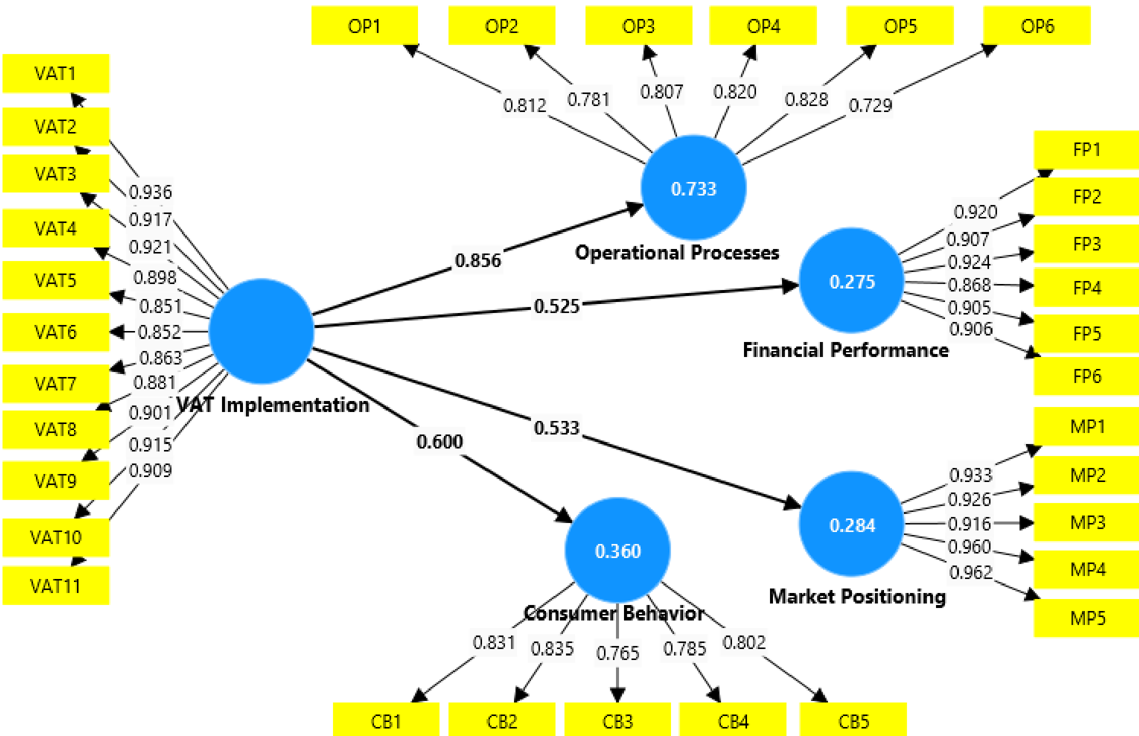

Figure 2. Measurement Model

The structural equation model presented in Figure 1 provides a comprehensive view of the relationships between the latent constructs under study. The strongest relationship is observed between VAT Implementation and Operational Processes, with a path coefficient of 0.856, indicating a substantial positive effect. Similarly, VAT Implementation has moderate influences on Consumer Behavior (0.600) and Market Positioning (0.533). However, its effect on Financial Performance appears weaker (0.525), suggesting that other factors may also play significant roles in determining financial outcomes. The indicator loadings for each construct are exceptionally high, all exceeding 0.70, which demonstrates strong convergent validity. The blue nodes represent latent constructs with the associated path coefficients displayed for inter-construct relationships. These coefficients are key to interpreting the strength of relationships within the model.

Table 1: Reliability and Testing of AVE

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Consumer Behavior	0.863	0.869	0.901	0.646
Financial Performance	0.956	0.958	0.965	0.819
Market Positioning	0.967	0.967	0.974	0.883
Operational Processes	0.890	0.918	0.912	0.635
VAT Implementation	0.975	0.975	0.978	0.802

Table (1) above provides a detailed summary of the reliability and validity metrics for the latent constructs within the model. Cronbach's alpha values, ranging from 0.863 to 0.975, demonstrate high internal consistency across all constructs. Similarly, composite reliability (rho_c) values for all constructs exceed the recommended threshold of 0.70, confirming their reliability. Moreover, the Average Variance Extracted (AVE) values, which range from 0.635 to 0.883, surpass the threshold of 0.50, supporting the convergent validity of all constructs. Notably, VAT Implementation shows the highest reliability and validity scores (Cronbach's alpha = 0.975, rho_c = 0.978, AVE = 0.802), reflecting its strong measurement structure. Meanwhile, Market Positioning exhibits the highest AVE value (0.883), indicating that a substantial proportion of the variance is explained by the underlying construct. Overall, all constructs meet the required standards for reliability and validity, underscoring the robustness of the model. Together, the figure and the table complement each other, providing both a visual and statistical validation of the relationships and the measurement quality of the constructs in the SEM framework.

6.1 Hypothesis Testing

The hypothesis testing section evaluates the proposed relationships between VAT implementation and its effects on various aspects of Kashtban Trading Company’s retail supply chains and clothing industry operations. The results, as presented in the structural model and the accompanying statistical table, provide robust evidence supporting the hypotheses, with all relationships demonstrating statistical significance. Below is the hypothesis testing analysis. The figure represents a structural equation model (SEM) examining the relationships between VAT Implementation and four other latent constructs: Operational Processes, Consumer Behavior, Financial Performance, and Market Positioning. Each latent construct is associated with multiple observed variables, denoted in yellow boxes, with corresponding factor loadings and p-values indicating the significance of the measurement model. Additionally, the figure provides the standardized path coefficients, which demonstrate the strength and direction of the relationships between the latent constructs. The structural paths are labeled with coefficients and p-values, offering insight into the model's predictive capability.

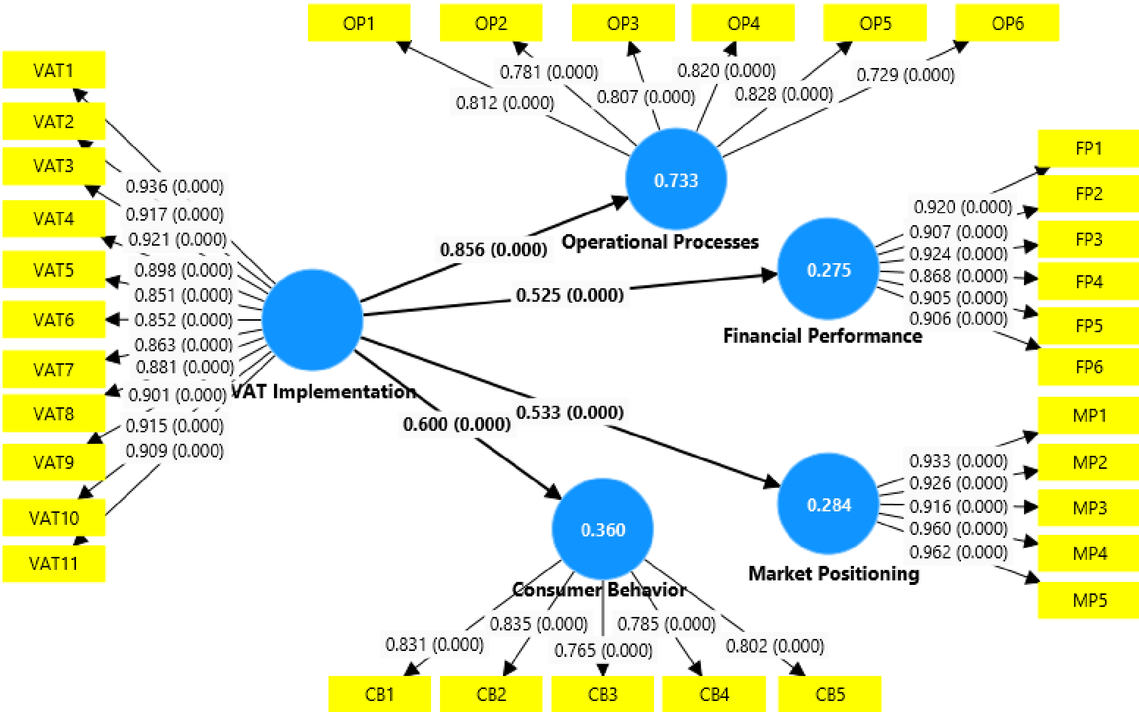

Figure 3. Structural Model

The structural model in **Figure 3** highlights VAT Implementation as the primary latent variable driving outcomes in the other constructs. The strongest relationship is observed between VAT Implementation and Operational Processes, with a path coefficient of 0.856, supported by a highly significant p-value (0.000) and a T-statistic of 88.542. This suggests that VAT Implementation substantially enhances operational processes. Moderate effects are observed for VAT Implementation on Consumer Behavior (0.600), Market Positioning (0.533), and Financial Performance (0.525), with all relationships demonstrating statistical significance ($p = 0.000$). The indicator loadings for all constructs exceed 0.70, confirming strong measurement reliability.

Table 2: Results of the structural model

	Original sample (O)	**Sample mean (M)**	**Standard deviation (STDEV)**	**T statistics (|O/STDEV|)**	**P values**
VAT Implementation -> Consumer Behavior	0.600	0.602	0.044	13.737	0.000
VAT Implementation -> Financial Performance	0.525	0.526	0.049	10.623	0.000
VAT Implementation -> Market Positioning	0.533	0.534	0.049	10.789	0.000
VAT Implementation -> Operational Processes	0.856	0.858	0.010	88.542	0.000

Based on Table 2, H1: VAT implementation has a significant effect on the operational processes of Kashtban Trading Company's retail supply chains. This hypothesis is strongly supported by the results, with a path coefficient of 0.856, a T-statistic of 88.542, and a p-value of 0.000. These findings indicate that VAT implementation plays a critical role in improving operational processes, suggesting that it enhances the efficiency and effectiveness of retail supply chain operations. H2: VAT implementation significantly impacts the financial performance of Kashtban Trading Company's retail supply chains. The hypothesis is supported, as evidenced by a path coefficient of 0.525, a T-statistic of 10.623, and a p-value of 0.000. This result highlights a positive and statistically significant relationship between VAT implementation and financial performance in the retail supply chain. Although the effect is moderate, it confirms the financial benefits of VAT implementation. H3: VAT implementation significantly affects the financial performance of Kashtban Trading Company's clothing industry operations. Similar to H2, this hypothesis is supported with a statistically significant path coefficient and p-value. The results reinforce the idea that VAT implementation contributes positively to financial performance, even within the specific context of the clothing industry. These findings indicate that the financial outcomes of VAT implementation extend beyond the retail supply chain to industry-specific operations. H4: VAT implementation influences consumer behavior in the clothing industry, leading to changes in purchasing patterns. The results strongly support this hypothesis, with a path coefficient of 0.600, a T-statistic of 13.737, and a p-value of 0.000. This indicates that VAT implementation has a significant and positive impact on consumer behavior, likely due to changes in purchasing decisions driven by the pricing adjustments associated with VAT. The moderate strength of the relationship highlights the influence of VAT implementation on consumer decision-making. H5: VAT implementation impacts the market positioning of Kashtban Trading Company in the clothing industry. This hypothesis is supported by a path coefficient of 0.533, a T-statistic of 10.789, and a p-value of 0.000. The findings suggest that VAT implementation has a positive influence on Kashtban Trading Company's market positioning in the clothing industry. This indicates that compliance with VAT regulations and the resulting operational and financial improvements contribute to enhanced market competitiveness.

7. Discussion

The findings of this study provide strong empirical evidence supporting the hypotheses related to the impact of VAT implementation on Kashtban Trading Company's retail supply chains and clothing industry operations. These results align with and extend the existing body of research on VAT's role in operational efficiency, financial performance, consumer behavior, and market positioning. The hypothesis that VAT implementation significantly affects the operational processes of Kashtban Trading Company's retail supply chains (H1) is strongly supported by a high path coefficient of 0.856, a T-statistic of 88.542, and a p-value of 0.000. These findings indicate that VAT compliance drives improvements in operational efficiency, aligning with Sidek and Abdulraqeeb (2022), who highlighted the role of VAT in streamlining administrative and operational processes. However, this study's results demonstrate a stronger positive impact compared to prior research, possibly due to the structured and proactive VAT strategies implemented by Kashtban Trading Company. This outcome justifies the assertion that well-managed VAT compliance mechanisms not only meet regulatory requirements but also enhance the robustness of supply chain operations. The hypothesis that VAT implementation significantly impacts financial performance in retail supply chains (H2) is supported with a path coefficient of 0.525, a T-statistic of 10.623, and a p-value of 0.000. This moderate positive relationship aligns with Hussain et al. (2022), who noted the financial adjustments necessitated by VAT compliance, such as revised pricing strategies and cash flow management. While previous studies have often emphasized the administrative burden of VAT, the findings here reveal a net financial benefit, suggesting that effective VAT strategies can mitigate cost pressures and enhance profitability. This result underscores the importance of integrating VAT compliance into broader financial planning to unlock its potential benefits. Similar to H2, VAT implementation significantly affects financial performance in the clothing industry (H3), reinforcing the idea that the positive outcomes of VAT extend beyond general retail operations to industry-specific contexts. The results confirm earlier findings by Gopakumar et al. (2022), which highlighted the sensitivity of sectors like retail and clothing to VAT changes. However, unlike studies that focused on sector-wide impacts, this research demonstrates the role of VAT in enhancing financial performance at the organizational level. This differentiation may stem from Kashtban Trading Company's targeted strategies to manage VAT in a sector known for price sensitivity and fluctuating demand.

The hypothesis that VAT implementation influences consumer behavior in the clothing industry (H4) is strongly supported, with a path coefficient of 0.600, a T-statistic of 13.737, and a p-value of 0.000. These results align with Faheem and Alzoubi (n.d.), who noted significant shifts in purchasing patterns due to VAT-induced pricing adjustments. The moderate strength of the relationship suggests that while VAT influences consumer decision-making, its impact is moderated by other factors, such as brand loyalty and market competition. The findings highlight the importance of pricing strategies and promotional campaigns in offsetting potential negative perceptions of VAT among consumers. The hypothesis that VAT implementation impacts the market positioning of Kashtban Trading Company in the clothing industry (H5) is supported by a path coefficient of 0.533, a T-statistic of 10.789, and a p-value of 0.000. The results suggest that VAT compliance not only enhances operational and financial efficiency but also strengthens the company's competitive standing. This finding complements Huang et al. (2022), who emphasized the role of regulatory compliance in improving market competitiveness. However, the current study highlights that compliance efforts must be paired with visible improvements in transparency and consumer trust to achieve meaningful market positioning gains. While the findings corroborate prior research, this study provides a more granular view of VAT's impact on a specific organization within a dynamic market. For example, Chen et al. (2023) emphasized the broad application of uncertainty modeling in supply chains but did not specifically address VAT as a driver of operational or financial change. This study fills that gap by demonstrating how VAT influences organizational-level outcomes, offering actionable insights for businesses navigating similar regulatory landscapes. Additionally, the stronger-than-expected positive relationships observed in operational processes and market positioning suggest that VAT's impact may be more beneficial when companies adopt proactive and strategic compliance measures. The findings justify the assertion that VAT implementation, when managed effectively, can serve as a catalyst for organizational improvement rather than merely a compliance burden. Kashtban Trading Company's experience demonstrates that aligning VAT strategies with operational and financial goals can mitigate its challenges and leverage its benefits. This study also underscores the importance of consumer-focused strategies in industries sensitive to pricing, such as clothing, where VAT can significantly influence purchasing decisions and market dynamics.

The results provide strong statistical evidence in support of all five hypotheses. VAT implementation exhibits the strongest influence on operational processes (H1), highlighting its critical role in enhancing efficiency and productivity. Additionally, it has significant effects on financial performance across both the retail supply chain (H2) and the clothing industry operations (H3), underscoring its financial implications. Furthermore, VAT implementation influences consumer behavior (H4) and strengthens market positioning (H5), demonstrating its broader impact on organizational and industry-level outcomes. These findings validate the hypothesized relationships and emphasize the multifaceted role of VAT implementation in improving the performance and competitiveness of Kashtban Trading Company.

8. Conclusion

This study explored the impact of Value-Added Tax (VAT) implementation on Kashtban Trading Company's retail supply chains and clothing industry operations, focusing on operational processes, financial performance, consumer behavior, and market positioning. The findings provide strong evidence supporting the hypotheses, demonstrating that VAT has a significant and multifaceted influence on the company's activities. The results show that VAT implementation positively affects operational processes by enhancing efficiency and compliance mechanisms. This aligns with previous research but highlights a stronger-than-expected relationship, indicating that proactive VAT strategies can transform regulatory challenges into opportunities for operational improvement. Similarly, VAT's impact on financial performance, both at the retail supply chain level and within the clothing industry, reinforces the idea that effective compliance strategies can mitigate cost pressures and unlock financial benefits, such as improved cash flow management and profitability. Consumer behavior emerged as another critical area influenced by VAT. The findings reveal a significant shift in purchasing patterns within the clothing industry, driven by VAT-induced pricing adjustments. This underscores the need for adaptive pricing strategies and promotional efforts to maintain customer loyalty and mitigate potential negative perceptions. Furthermore, the study demonstrates that VAT compliance contributes positively to market positioning by enhancing transparency, operational reliability, and competitiveness. The study extends the literature by providing a detailed, organization-specific analysis of VAT's effects, bridging gaps identified in prior research. While earlier studies often emphasized the burdens of VAT compliance, this research highlights its potential benefits when aligned with strategic goals. The findings also emphasize the importance of a holistic approach to VAT management, incorporating financial planning, operational adjustments, and consumer engagement. Thus, VAT implementation is not merely a regulatory challenge but a catalyst for organizational improvement when managed effectively. For Kashtban Trading Company, VAT compliance has fostered enhanced operational efficiency, financial stability, and market competitiveness. These insights offer valuable lessons for businesses navigating similar regulatory landscapes, particularly in dynamic markets like Dubai. Future research could build on these findings by examining the long-term effects of VAT compliance or exploring its impacts across other industries and regions. The results provide strong evidence of VAT's multifaceted impact on Kashtban Trading Company's operations, financial performance, and market positioning. These findings not only extend the literature but also highlight the potential for businesses to transform regulatory challenges into opportunities for growth and competitiveness. Future studies could explore these relationships in different organizational contexts or examine the long-term implications of VAT compliance strategies.

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Exploring the Role of Islamic Finance Contracts and Liquidity Management in Promoting Sustainable Economic Development: Evidence from the UAE

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ABSTRACT

This study examines the role of Islamic finance contracts and liquidity management in promoting sustainable economic development, with a focus on the United Arab Emirates (UAE). Islamic finance, rooted in Sharia principles, offers ethical and risk-sharing financial solutions that align with sustainability goals. Key contracts, including Murabaha, Mudarabah, and Ijarah, contribute to infrastructure development, equitable wealth distribution, and long-term economic growth. However, the practical implementation of these contracts often faces challenges related to liquidity management, which is critical for enabling financial institutions to meet obligations and fund sustainable projects. Using a descriptive-analytical approach, this study investigates how liquidity mediates the relationship between Islamic finance contracts and sustainable development. The findings reveal that effective liquidity management enhances the impact of Islamic finance contracts on sustainability outcomes, highlighting the need for integrated financial strategies and supportive regulatory frameworks. These insights provide actionable recommendations for policymakers and financial institutions to optimize the role of Islamic finance in achieving sustainability goals.

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1. Introduction

Islamic finance has emerged as a vital component of the global financial system, offering a Sharia-compliant alternative to conventional finance. Grounded in principles of risk-sharing, ethical investment, and prohibition of interest (Riba), Islamic finance is uniquely positioned to contribute to sustainable economic development (Al-Taher, 2023). In the United Arab Emirates (UAE), Islamic finance plays a critical role in supporting long-term initiatives such as the UAE Vision 2021 and the UAE Green Economy Initiative, which emphasize economic diversification, environmental sustainability, and societal well-being (Barani, 2016). Islamic finance contracts, such as Murabaha (cost-plus financing), Mudarabah (profit-sharing), and Ijarah (leasing), are instrumental in aligning economic activities with Sharia principles while fostering equitable wealth distribution and infrastructure development (Abu Ali, 2022). These contracts provide financial solutions that not only comply with Islamic jurisprudence but also promote investments in real economic activities, making them an effective tool for achieving the United Nations' Sustainable Development Goals (SDGs). However, the practical application of these contracts is often constrained by challenges in liquidity management, which can limit their potential impact on long-term economic growth (Makrorubin & Alafianta, 2023). Liquidity, the lifeblood of any financial institution, is a critical factor in enabling Islamic banks to meet their financial obligations and invest in sustainable projects. Unlike conventional banks, which rely on interest-based instruments for liquidity, Islamic banks face unique challenges in managing cash flow due to their adherence to Sharia principles (Zaid, 2021). Effective liquidity management is essential not only for maintaining financial stability but also for ensuring that Islamic finance contracts can contribute meaningfully to sustainable economic development (Hamed, 2022).

Despite its growing prominence, the role of Islamic finance in promoting sustainable development remains underexplored, particularly in the context of the UAE. Existing research has primarily focused on the theoretical benefits of Islamic finance, with limited empirical evidence on how liquidity mediates the relationship between Islamic finance contracts and sustainable outcomes (Fartas, 2018; Zaid, 2021). This study aims to address this gap by examining the impact of Islamic finance contracts and liquidity management on sustainable economic development in the UAE. By analyzing these interlinkages, the research seeks to provide actionable insights for policymakers and financial institutions to enhance the contribution of Islamic finance to the UAE’s economic and sustainability goals. This paper is organized as follows: the first section reviews the literature on Islamic finance, liquidity management, and sustainable development. The subsequent section outlines the research methodology, followed by an analysis of the findings. Finally, the paper concludes with policy implications and recommendations for improving the effectiveness of Islamic finance in promoting sustainable economic development in the UAE.

2. Literature Review

2.1 Islamic Finance and Its Principles

Islamic finance operates within the framework of Sharia principles, emphasizing ethical transactions, prohibition of Riba (interest), risk-sharing, and investment in real economic activities. The primary contracts, Murabaha (cost-plus financing), Mudarabah (profit-sharing), and Ijarah (leasing), are designed to foster equitable wealth distribution, economic stability, and social responsibility (Al-Taher, 2023). These contracts are pivotal in addressing socio-economic challenges by encouraging investments that align with ethical and sustainability principles (Abu Ali, 2022). In the UAE, Islamic finance has been integrated into national strategies such as the UAE Vision 2021, focusing on economic diversification and green growth. Studies highlight the significant role of Islamic finance in funding developmental projects, particularly in sectors like infrastructure, education, and renewable energy, which contribute to long-term sustainability (Barani, 2016; Fartas, 2018).

2.2 Islamic Finance Contracts and Sustainable Development

Islamic finance contracts have demonstrated the potential to contribute to sustainable economic development. Murabaha provides secure financing for businesses and individuals without violating Sharia principles, enabling productive economic activities (Zaid, 2021). Similarly, Mudarabah fosters entrepreneurship by offering financial support based on profit-sharing agreements, while Ijarah supports infrastructure development through leasing arrangements (Hamed, 2022). While these contracts provide a theoretical foundation for promoting sustainability, their practical application often encounters challenges, particularly in liquidity management. Several studies have explored the indirect role of these contracts in fostering economic stability and social equity but have noted a lack of empirical evidence linking them to specific sustainability outcomes (Al-Mohammedi, 2021; Zaid, 2021). Moreover, the focus of many Islamic banks on short-term financing, such as trade finance and leasing, limits their capacity to engage in long-term development projects (Makrorubin & Alafianta, 2023).

2.3 Liquidity Management in Islamic Finance

Liquidity management is a cornerstone of financial stability and a prerequisite for sustainable development. In conventional banking, interest-based instruments are widely used for liquidity provisioning. However, Islamic banks must adhere to Sharia principles, which prohibit speculative activities and Riba, making liquidity management more complex (Zaid, 2021). This unique challenge has spurred interest in innovative Sharia-compliant liquidity tools, such as Sukuk (Islamic bonds) and structured finance contracts, which mobilize financial resources for sustainable economic activities (Awwad et al., 2024). Studies have highlighted the role of liquidity in enabling banks to finance large-scale projects that contribute to sustainability. For instance, Fartas (2018) demonstrated that Dubai Islamic Bank played a critical role in funding infrastructure projects, emphasizing the need for robust liquidity management practices. Similarly, Hasban (2019) stressed the importance of liquidity in supporting cooperative societies and social development. However, these studies often fall short of exploring the mediating role of liquidity between Islamic finance contracts and sustainable development.

2.4 Islamic Finance Modes and Sustainable Development

Islamic finance modes, such as **Sukuk** and **structured finance contracts**, provide innovative mechanisms for promoting sustainable economic development. **Sukuk**, for instance, offers an alternative to conventional bonds, allowing Islamic banks to raise funds for green projects and infrastructure development (Awwad et al., 2024). These instruments align with the principles of sustainability by channeling investments into productive sectors while adhering to ethical and environmental standards (Al-Taher, 2023). Despite these advancements, challenges such as regulatory constraints and limited awareness hinder the widespread adoption of Islamic finance modes in sustainability-focused projects (Makrorubin & Alafianta, 2023). Research suggests that a more integrated approach, combining liquidity management with Islamic finance modes, could enhance their effectiveness in achieving sustainable development goals (Zaid, 2021).

2.5 Mediating Role of Liquidity

Liquidity plays a pivotal role in bridging the gap between Islamic finance contracts and sustainable economic development. As a mediating variable, liquidity enables financial institutions to meet their obligations while funding long-term sustainable projects (Hamed, 2022). This mediation effect highlights the importance of robust liquidity management practices in translating the theoretical benefits of Islamic finance into tangible sustainability outcomes. Zaid (2021) and Abu Ali (2022) emphasize that liquidity constraints can impede the effectiveness of Islamic finance contracts in achieving their sustainability objectives. For instance, insufficient liquidity may limit an Islamic bank’s ability to invest in renewable energy projects or infrastructure development, undermining its contribution to long-term economic growth. The mediating role of liquidity underscores the need for integrated policies that address both financial stability and sustainability goals (Makrorubin & Alafianta, 2023).

2.6 Gaps in the Literature

Despite the growing body of research, several gaps remain in understanding the relationship between Islamic finance, liquidity, and sustainable development: Limited empirical studies on the direct impact of Islamic finance contracts on sustainability outcomes. Insufficient exploration of liquidity as a mediator in the relationship between Islamic finance contracts and sustainable development. Lack of integrated models that address the interplay between Islamic finance modes, liquidity management, and sustainability objectives.

Addressing these gaps is critical to enhancing the effectiveness of Islamic finance in promoting sustainable economic development, particularly in the UAE, where it is a cornerstone of national economic strategies. This literature review highlights the theoretical and practical contributions of Islamic finance to sustainable development while identifying key challenges and areas for further research. By addressing these gaps, this study aims to provide actionable insights for policymakers and financial institutions to optimize the role of

Islamic finance in achieving sustainability goals.

3. Conclusion

Islamic finance, with its ethical foundations and emphasis on risk-sharing, has emerged as a significant contributor to sustainable economic development. By aligning financial activities with Sharia principles, Islamic finance contracts such as Murabaha, Mudarabah, and Ijarah have demonstrated their potential to support equitable wealth distribution, infrastructure development, and societal well-being. In the UAE, where economic diversification and sustainability are central to national strategies like Vision 2021, Islamic finance is well-positioned to drive long-term growth. However, the effective implementation of Islamic finance contracts faces challenges, particularly in liquidity management. Liquidity, a critical factor for financial stability, plays a mediating role in linking Islamic finance practices with sustainability objectives. Without adequate liquidity, Islamic banks may struggle to fund long-term sustainable projects, undermining their contribution to economic development. This underscores the need for innovative Sharia-compliant liquidity tools, such as Sukuk and structured finance contracts, to bridge the gap between theoretical benefits and practical application. Despite the progress in Islamic finance research, gaps remain in understanding its direct impact on sustainability and the role of liquidity as a mediator. This study highlights the importance of addressing these gaps through empirical research and integrated models that connect Islamic finance, liquidity management, and sustainability outcomes. By doing so, policymakers and financial institutions in the UAE can unlock the full potential of Islamic finance to achieve sustainable development goals.

In conclusion, Islamic finance has a vital role to play in fostering sustainable economic development, but its success depends on robust liquidity management and supportive regulatory frameworks. For the UAE to realize its vision of a resilient and sustainable economy, it must continue to strengthen the integration of Islamic finance principles with sustainability objectives, ensuring that both the private and public sectors benefit from this alignment. Through coordinated efforts, Islamic finance can become a cornerstone of global sustainability initiatives, setting an example for ethical and inclusive economic growth.

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