Lending Leniency: The Relationship Between High-status Affiliations and Consumer Acceptance of Products in Contested Markets

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Abstract

Markets are often sites of ongoing contestation regarding the acceptability of various product features and production practices. While prior research has explored how producers resolve moral controversies, less attention has been paid to how they convince consumers of their products' moral acceptability when consensus remains elusive. This study addresses this gap by examining a prominent tactic: producers' strategic affiliations with high-status moral advisors. We theorize that such affiliations reassure consumers, making them more likely to accept reduced financial returns for products bearing a strong stamp of moral approval. We test and find support for this argument using data on 1,540 *Shariah*-compliant bonds, or *sukuk,* where there has been ongoing debate over what product features are allowed according to Islam. We find that *sukuk* endorsed by high-status *Shariah* scholars (sheikhs) have significantly lower coupon rates, indicating consumers' willingness to accept reduced financial returns in exchange for moral reassurance. Additionally, the impact of high-status endorsements weakens as *sukuk* adhere more closely to strict moral interpretations, highlighting a compensatory relationship between status signals and substantive product features. Supplementary analyses reveal that issuers are more likely to seek endorsements from high-status moral advisors when their products are complex or opaque. Overall, this research helps to build a more comprehensive picture of the tactics producers use to overcome the challenges of contested moral markets.

Moral contestation is a pervasive feature of many markets (Balsiger and Shiller-Merkens 2017). In these settings, the normative acceptability of products – including their features, inputs, production methods, and suitability for market-based exchange – is a matter of recurrent debate. This lack of consensus generates uncertainty for both consumers and producers. Consumers seek reassurance that their purchases align with their moral values, while producers must make product-design choices and convince consumers of the suitability of their offerings. Although scholars have developed rich insights regarding the strategies producers use to resolve moral contestation (Weber, Heinze and DeSoucey 2008; Anteby 2010; Lashley and Pollock 2020; Hsu et al. 2018), far less is known about the tactics they employ when contestation remains ongoing. Developing a better understanding of how producers cope under those circumstances is increasingly important as persistent contestation has become more commonplace – as evidenced by ongoing debates over the use of fur in high fashion (Godart, Hsu, and Negro 2023), the inclusion of stocks from certain questionable industries in sustainable investment funds (Arjaliès and Durand 2019), the choice of harvesting methods in forestry (Zietsma and Lawrence 2010), and the determination of which ingredients should be used to make biodiesel (Hiatt and Carlos 2019).

This paper focuses on one tactic that producers employ in contested markets: namely, affiliations with high-status moral advisors. The use of moral advisors – individuals who possess the authority and influence to "provide clarity and guidance to others regarding what is right in terms of values and actions" (Hoppner and Vadakkepatt 2019:418) – is common in a range of industries. For instance, research institutions, pharmaceutical companies, and biotechnology firms regularly employ renowned scientists and philosophers as bioethics consultants to help them navigate ethical and moral concerns associated with controversial healthcare and research practices and to confer legitimacy on their products (Fine Maron 2015).

Yet, it remains unclear whether practices such as this one – aimed at cultivating consumer acceptance for products in contested markets – tend to succeed. Generally, social endorsements from higher-status individuals are known to positively influence evaluations (Podolny 1994; Stuart, Hoang, and Hybels 1999; Uzzi and Lancaster 2004). However, the impact of high-status endorsements is less

straightforward when the endorsed products or behaviors are considered questionable or contested. Numerous studies have sought to understand whether status mitigates negative reactions to deviant or controversial behaviors, or whether it amplifies them, with empirical evidence supporting both sides (Graffin et al. 2013; Phillips, Turco and Zuckerman 2013; Sharkey 2014). Attempts at reconciling these divergent findings have highlighted ambiguity regarding wrongdoing as a key factor: high-status actors are sanctioned to a greater degree when it is clear they have engaged in wrongdoing, but they enjoy the benefit of the doubt when there is ambiguity (Kakkar, Sivinathan & Gobel 2020; McDonnell and King 2018). In theory, because contested markets by definition involve substantial ambiguity regarding what is morally acceptable, it seems plausible that higher-status actors could garner leniency in these settings. Whether the benefit of the doubt that high-status actors receive transfers—via endorsement—to products or services they do not themselves produce or distribute remains an open question. If it does, however, it suggests that endorsements from high-status moral advisors could provide reassurance to customers in contested markets, making them more willing to accept products whose morality is uncertain or debated.

We examine these possibilities in a setting where the morality of various product features is a topic of ongoing debate: namely, the market for *sukuk*, which are Islamic bonds that aim to be *halal* (i.e., abide by the principles of Islam). Broadly speaking, Islamic finance emphasizes the principles of risk-sharing and prohibits *riba* (interest), *gharar* (excessive risk), *maysir* (gambling), and investments in products or services that are forbidden by Islam, namely alcohol and pornography (Calder 2016; Hayat, Den Butter, and Kock 2013). While the general principles of Islamic finance are agreed-upon, the moral appropriateness of specific product features is the subject of constant debate. For example, some *sukuk* issuers charge late payment fees whereas others do not. The use of late payment fees is a contested issue because some consider that it violates the principle of interest prohibition (*riba*), while others disagree with that interpretation. This is one example of a general charge that skeptics raise against Islamic finance products – namely, that many products have features that are essentially "interest by another name," contrary to the religion's strict prohibition on interest. Despite recurrent contestation, the *sukuk* market has grown rapidly since its inception more than 20 years ago and is today valued at 860 billion USD

(UBS 2024). This growth has occurred as both traditional Islamic banks and more conventional financial services companies have participated in the market (Koçak and Ozcan 2013), innovating new product features, whose morality are often up for debate. Producers have leveraged affiliations with moral advisors – *Shariah* scholars – to provide their stamp of approval. Among these, a subset of high-status scholars who enjoy the honorific designation of sheikh are among the most highly sought (Calder 2020a).

To better understand how high-status moral advisors affect product acceptance in contested markets, we study 1,540 *sukuk* issued between 2012 and 2017. Our main analyses focus on their coupon rates – the fixed rate of return that *sukuk* issuers commit to pay purchasers on their invested capital. Lower coupon rates are preferable for issuers, as they represent a cost. Conversely, higher coupon rates are more desirable for consumers, all else equal, given their greater financial returns. However, in choosing to invest in a *sukuk*, consumers do not consider only its financial returns; they are also concerned with its moral acceptability. Recognizing this, *Sukuk* issuers set the coupon rate at the lowest level they believe consumers will accept, given the product's features. Thus, *lower* coupon rates when a *sukuk* receives formal approval from more high-status moral advisors indicates the value consumers place on such endorsements.

Our findings indicate that *sukuk* endorsed by higher-status moral advisors generally have lower coupon rates. This suggests consumers are willing to accept reduced financial returns for products bearing a strong stamp of moral approval. We also observe that the relationship between endorsements of high-status moral advisors and consumers' acceptance of lower financial returns weakens when the product has more stringent features. This further underscores the high value consumers place on these endorsements, implying that these endorsements become even more crucial when a product adheres to less strict moral interpretations. Thus, affiliation with a higher-status moral authority can enable producers to secure acceptance for their products, even if they align with lesser standards of morality. Our exploratory analyses further corroborate this theory by delving into the factors that lead producers to seek these endorsements. In particular, consistent with the idea that moral endorsements provide reassurance to

consumers, we find that endorsements from high-status *Shariah* scholars are more common for products with complex and opaque features – situations where uncertainty is heighted.

This study offers two principal contributions. First, we advance the understanding of contested markets. While existing scholarship has predominantly examined cases where producers have taken collective action to resolve contestation (Zelizer 1979; Weber, Heinze and DeSoucey 2008; Chan 2009; Anteby 2010), our work shifts attention to understanding situations where producers must operate *amidst* persistent moral debate. We demonstrate how producers can strategically use affiliations with high-status moral advisors to enhance product acceptance and flourish despite the inherent uncertainty of morally contested markets. Second, our research enriches the status literature. We reveal that the interpretive leniency often granted to high-status individuals involved in morally ambiguous actions can also extend to their affiliates. Thus, the strategic deployment of high-status affiliations emerges as a critical mechanism for producers to cultivate acceptance for products in contested markets.

THE SUKUK MARKET

Our research is set within the market for Islamic bonds (*sukuk*), which are financial instruments underpinned by Islamic law (*Shariah*). Like conventional bonds, *sukuk* are issued by companies across a range of industries to fund projects. However, unlike their conventional counterparts, *sukuk* must adhere to both financial regulations and Islamic law. Consumers in the Islamic finance industry frequently emphasize their expectation that Islamic finance products be not only profitable, but also *halal* (*Shariah* compliant) (Calder 2020b). For instance, a 2014 PWC report on the Islamic finance market notes:

> "Islamic banks face a twin challenge – they must first convince their natural customer base of Muslims that the products they offer are indeed *Shariah* compliant, then they need to ensure that service levels at least match up to that on offer elsewhere." (2014:5)

This dual expectation highlights a broader industry challenge: the ongoing contestation surrounding the precise definition of *Shariah* compliance. Islamic law derives primarily from the holy Koran and the Hadith (i.e., the sayings and actions of Prophet Mohammed). Beyond these, *Ijma* (consensus among Islamic scholars) also establishes Islamic law on matters not discussed in the Koran or Hadith (Hayat et al. 2013). Consequently, *Shariah* scholars play a key role in interpreting the permissibility of products or

product features under Islamic law (Calder 2020a). These scholars are charged with ensuring that the structure and characteristics of products adhere to *Shariah* knowledge and scholarship.

Nonetheless, as Mohammad Daud Bakar (2016:xxii), a prominent global *Shariah* scholar, notes: "Scholars are not the same in their educational exposure and reasoning processes. Thus, it would be illogical and unreasonable to expect them to have one standard view or response to a particular issue at any one time." In other words, there are multiple schools of thought within Islamic law, ranging from stricter to more liberal interpretations, each supported by plausible justifications (Boone and Özcan 2016). One Malaysian scholar we interviewed explained how different perspectives may exist, without a clear "correct" approach agreed upon by all:

> "To some *Shariah* scholars, *Shariah* is flexible. Why do you have to make it rigid? I mean our Islamic participants, if you look at it, there are many flexible views. So these scholars are saying, we are not inventing anything. This is just the nature of Islamic jurisprudence."

For example, some *Shariah* scholars argue that derivative products are not *Shariah* compliant because they involve *gharrar* or excessive risk, whereas others claim they are acceptable if Islamic banks use them to hedge risk (Syakhroza, Paolella, and Munir 2019). Similarly, the lack of consensus extends to the question of whether *zakat* (a 2.5% charity tax on net income) is compulsory for Islamic finance institutions; some contend it is, whereas others disagree, reasoning that *zakat* is mandatory only for Islamic individuals, not organizations (Paolella and Syakhroza 2021). The ongoing contestation and lack of consensus creates significant challenges for consumers. According to Hayat et al. (2013:609), "even if the buyer of the financial product has some knowledge of whether it is *halal*, he cannot truly verify this since what is acceptable to one school may not be so for another school." Given this ambiguity, endorsements from the 'right' *Shariah* scholars can positively influence how contested products are perceived by consumers.

Despite the challenges that ongoing contestation entails, the global outstanding *sukuk* market was valued at over $860 billion in 2024 (UBS 2024) and continues to grow at approximately 11% annually. While most Islamic finance products are sold to Muslims, Islamic finance institutions also market and sell to non-Muslims worldwide.

The *sukuk* issuance process generally consists of two steps. First, the *sukuk* issuer collaborates with an arranger (typically an investment bank) to prepare a detailed feasibility study, outlining the *sukuk*'s objectives. For example, if a company like Malaysia Airlines intends to issue a *sukuk*, it acts as the "issuer" and would seek help from a bank, such as HSBC, as the "arranger." After the feasibility study, the issuer and arranger then develop the *sukuk*'s general framework, which specifies the *sukuk*'s objective and financial details, including the original issue amount and tenor. At this stage, internal discussions between the issuer and the arranger regarding the product's *Shariah* compliance have already taken place. As one Malaysian *Shariah* scholar we interviewed explained:

> "Usually the [arranger's] product development team develops the product, puts the structure… then there is an internal *Shariah* department, usually an internal organ of the Islamic bank. Once the product is structured, then it will go to the *Shariah* scholars for the final decision. So actually by the time the product has already reached the *Shariah* board it will already have gone through a process of *Shariah* screening, verification, and compliance internally."

Given the absence of fully formulated *Shariah*-compliance guidelines, the *sukuk* issuer and arranger typically engage a selected group of *Shariah* scholars for the issuance of the particular *sukuk*. These scholars review and, contingent on their assessment, approve the *sukuk* prior to its market launch. The *Shariah* scholars work together with one another and with the issuer and arranger to come to a group conclusion on whether the *sukuk* is *Shariah* compliant. Their comprehensive review typically encompasses all aspects of a product's *Shariah* compliance, ranging from its structure and operations to risk management policies and even marketing materials. As one scholar puts it, they work together "through meetings, briefing and discussion. This could be in series or a number of meetings until the matter comes to a conclusion. The management is always respectful and observant to the scholar's view." Another scholar also echoed the same sentiments:

> "The *Shariah* process is iterative and may take a long time. Bankers and *Shariah* departments at the underwriter or arranger are usually the ones who design a product. They will be informed by legal counsel. For instance, bankers and lawyers will not recommend commodity *murabahah* (*tawarruq*) for domestic US purposes as it is not permitted under at least two financial regulations. The same team might recommend it for cross border funding into the UK because of favorable tax treatment. A proposal will usually include arguments for the selected *Shariah* principles and why. The issuer/obligor might have their own *Shariah* advisor. Depending upon how different banker/obligor views, there will be meetings with the *Shariah* teams. My experience is any party

> pressuring a scholar to agree will earn a rejection. I have made it clear that I will not approve a product when management at a client pushed too hard on an idea with which I was uncomfortable."

Although not all *sukuk* receive *Shariah* scholar endorsements, about 75% do[1]. The names of all the *Shariah* scholars approving the *sukuk* appear on the *sukuk*'s prospectus, the detailed document provided to potential investors.

The selection process by which *Shariah* scholars are chosen to approve a given *sukuk* operates informally. A scholar may have an ongoing working relationship with the arranger or hold a position on the arranger's *Shariah* Supervisory Board. These selected *Shariah* scholars may also recommend other *Shariah* scholars to the issuer or arranger. For their part, the motives of *Shariah* scholars are multi-faceted and may vary from individual to individual. *Shariah* scholars are compensated for their role in this process, and it is possible that financial incentives drive their participation. They may also be motivated by a desire to see the Islamic finance sector flourish. Moreover, while scholars may feel responsible to abide by stringent interpretations of morality, those who approve more lenient *sukuk* are not at danger of losing their standing, in part because this simply does not happen for sheikhs but also because the market is contested, which by definition indicates that there is no official standard against which to judge their behavior.

Analogous to the role of knowledgeable advisors in other industries, *Shariah* scholars are limited in number and vary in their status. Scholars who hold the honorific designation of 'sheikh' are especially esteemed (Hayat et al. 2013). Although a *sukuk* issuer can engage any scholars they would like to endorse their product, there is a dire global shortage of respected *Shariah* scholars (Davies and Sleiman 2012; Irfan 2014). This scarcity means the most elite scholars are in high demand and possess significant decision-making independence. As Murat Unal, CEO of Funds@Work (an investment strategy consultant

[1] Whether an issuer seeks out any *Shariah* scholar endorsements of their *sukuk* is largely dependent on the institutional conditions in the country in which the *sukuk* is issued. We explore the antecedents of *Shariah* scholar endorsement in our quantitative analyses below (Appendix Table 1). However, to briefly summarize, key determinants of the use of *Shariah* scholar endorsement are whether a country has *sukuk* regulation and *Shariah* governance frameworks in place.

in the Middle East) explained in a Reuters article (Davies and Sleiman 2012) regarding the role of *Shariah* experts in Islamic finance:

> "It's like a social network. People and their relationships play a very important role. If you have a prominent scholar on board, this increases trust and makes up for the lack of governance standards. Institutions sell their products via the reputation of the scholars, so you better make sure you have accepted scholars on board. (2012:4)"

A Dubai-based banker, quoted in the same article, similarly likened the high-status *Shariah* scholars to "a bit like being a rock star. They are disproportionately recognized, with people saying: 'I want that name in Malaysia, I want that name in Bahrain'" (2012:3). A scholar we interviewed echoed these sentiments, particularly regarding customer perceptions: "The scholar's names become a brand. When customers like me and you want to purchase a product, we see who is sitting on the board. Because there are names that are just trusted by the customers and the investors." Thus, *Shariah* scholars' endorsements enhance the perception of a *sukuk* as morally acceptable. These *Shariah* scholars are viewed as crucial to maintaining the "credibility of the industry" (Hamza 2013:227), as their endorsement generates consumer trust that a product is morally sound in an otherwise uncertain market (Calder 2020a).

Overall, scholars' endorsements are critical in the Islamic finance industry. The industry heavily relies on the guidance and approval these scholars provide, and Islamic finance researchers consider them as "one of the most important governance mechanisms" (Aribi, Arun, and Gao 2019:2) for ensuring *Shariah* compliance within Islamic financial institutions (Gözübüyük, Kock, and Ünal 2020). We now turn to our theoretical arguments to generate predictions about the acceptance of products associated with high-status moral advisors.

THEORETICAL BACKGROUND AND HYPOTHESES

In contested markets, stakeholders with diverse values, norms, interests, and resources advocate for a disparate set of practices and product features that align with their preferred definition of moral acceptability (Balsiger and Schiller-Merkens 2019). While some producers may take long-term-oriented steps to reduce contestation – such as advocating for certain standards, forming agreements with peers, or launching broad consumer influence campaigns (Reinecke and Ansari 2015; Hsu et al. 2018; Lashley and

Pollock, 2020) – all producers must also make short-term operational decisions while contestation persists.

Many of these decisions center around product design, including the choice of inputs, product features, and production methods. In contested markets, these choices are more complex than in other settings, due to the ambiguity about what constitutes morally acceptable practices. This difficulty is further intensified because such choices affect not only revenues but also costs. On the cost side, producers who choose to "play it safe" by adhering to the strictest interpretation of moral principles may face higher input costs or more time-intensive production methods (Balsiger 2016). For example, organic farming, which relies on traditional tilling, planting, and harvesting methods and uses chemical-free fertilizers, incurs higher costs for producers, leading to higher prices for consumers (Lee et al. 2017). As consumers likely vary in their willingness-to-pay for the costs associated with greater moral acceptability, any choice of product features is likely to attract some consumers while alienating others. In addition, even in cases where stringent compliance does not increase production costs, it can still affect revenue by narrowing the set of customers the product attracts (e.g., a restaurant offering food that abides by the strictest interpretations of halal food, perhaps losing customers who enjoy foods that fall under less strict definitions; or an asset management firm offering funds that use an extremely restrictive definition of "socially responsible" in selecting investment vehicles). Overall, the precise impact of these product design choices is often uncertain from the perspective of producers.

High-Status Moral Advisors and Product Acceptance

Given the consequential nature of these product-design decisions and the substantial uncertainty they entail, producers in contested markets may pursue alternative avenues to enhance their products' moral acceptability. A key strategy used in some contested markets involves engaging high-status moral advisors to serve as an indicator of their product's moral credentials.

Generally speaking, endorsements from high-status actors generate more positive perceptions of their affiliates. For example, nascent firms whose future success is highly uncertain attain higher IPO valuations when affiliated with prestigious underwriters (Gulati and Higgins 2003, 2006; Pollock 2004),

prominent venture capitalists (Gompers and Lerner 2004; Sanders and Boivie 2004), and esteemed board members (Certo, 2003). Further illustrating how prestigious affiliations enhance external perceptions, Roberts, Khaire, and Rider (2011) showed that wineries recruiting winemakers from prestigious competitors could raise prices for wines produced before the new winemaker's arrival—wines the new winemaker did not affect. This price increase reflected a purely symbolic effect of status, as consumers interpreted the hire as a signal of higher quality.

Prior research has suggested that the impact of high-status endorsements on evaluations can arise in two ways. First, endorsements by high-status actors may positively impact what Ridgeway and Correll (2006) refer to as their first-order beliefs – their personal beliefs about the value of a product. In other words, according to this account, the existence of a high-status endorsement may lead a person to personally believe the product or organization is better on some dimension (e.g., quality, morality), as compared to entities lacking such endorsements. A second way in which status may lead to the perception of increased value or worth is through its impact on third-order beliefs – i.e., beliefs about what "most other" people think. When this occurs, status may prove valuable in "providing cover" for a decision. For example, Uzzi and Lancaster (2004) describe how clients felt it was worth paying more for a high-status law firm, because their choice of law firm was more defensible to third parties, even if they personally did not believe that higher-status firms provided superior service (see also, Jensen 2006; Correll et al. 2017). In a sense, this account accords with the idea that anything associated with a high-status actor is perceived as more defensible or socially acceptable.

Although prior research is clear that status favorably impacts evaluations, it offers less consensus on whether high-status actors (and their affiliates) enjoy similarly positive perceptions when engaging in questionable or morally problematic behaviors. In contested markets, whether this benefit of the doubt transfers through endorsement to offerings not primarily associated with the endorser (as opposed to the actor's own products or services) is an open question. If so, endorsements from high-status moral advisors could reassure customers in contested markets, increasing their willingness to accept products whose morality is uncertain or debated. Some studies suggest that high-status actors who violate moral norms

are judged more harshly than their lower-status peers (Fragale, 2009). For example, Polman et al. (2013) experimentally found that participants reported a greater willingness to punish a high-status individual for a clear transgression harshly than they would punish others. Conversely, other research indicates that status has a protective effect. For example, Sharkey (2014) observed that firms from higher-status industries garnered less negative stock market reactions to earnings restatements, compared to their lower-status peers.

Efforts to resolve these mixed findings have centered on an important contingency: the degree of ambiguity involved. Ambiguity is important because it provides the flexibility necessary for reinterpreting a high-status actor's behavior more generously. In general, this line of work finds that when there is ambiguity, high-status actors receive a more lenient or generous interpretation of their behavior. For example, Kakkar, Sivanathan, and Gobel (2020) studied how ambiguity shapes reactions to norm violations committed by high-status individuals. Specifically, they found that ambiguous violations by individuals with prestige-based status were treated with more leniency, as observers were inclined to give them the benefit of the doubt due to reduced perceptions of intentional wrongdoing and greater moral credibility. In a related vein, McDonnell and King (2018) showed that higher-status firms that were charged with discrimination were less likely to be found guilty, indicating that they generally are given the benefit of the doubt when there is ambiguity as to whether they have engaged in wrongdoing. However, if they were found guilty, they subsequently received harsher punishments, which suggests that high-status actors are penalized more harshly in the absence of ambiguity.

Contested markets are, by definition, environments where norms are unsettled, and thus, ambiguity is high. Therefore, we argue that status should lead to more generous attributions of actions that high-status actors take in contested markets, positively influencing evaluations (Sharkey 2014; McDonnell and King 2018). As a result, when a high-status moral advisor lends their name to a product they do not themselves create or distribute in a contested moral market, the product is likely to be viewed as more morally acceptable, controlling for its features. In turn, consumers should evaluate such products more favorably.

To the extent that producers recognize that consumers evaluate products with the endorsement of high-status advisors as more morally acceptable, they may then formulate the financial aspects of these products differently than they would otherwise, so that consumers have to "pay" for the benefit of moral acceptability. In particular, if consumers evaluate products holistically based on a mix of moral and financial attributes, they may trade-off their desire for moral and financial attributes by "paying" more for products that have the stamp of approval from high-status moral advisors (or vice versa, paying less for products that lack such approval). In that sense, the value that consumers place on these affiliations can be seen in consumers' willingness to accept lower financial returns in exchange for the reassurance these endorsements provide. Thus, we predict:

> ***Hypothesis 1:*** *In a contested market, the more high-status moral advisors are affiliated with a product, the more willing consumers will be to accept lower financial returns for it.*

Our prediction about the negative relationship between endorsements of high-status moral advisors and coupon rates hinges on the idea that these endorsements help reassure customers about moral acceptability of purchasing these products and that they are willing to trade off financial gains for that reassurance. To more directly test this mechanism, we examine whether the reassurance provided by high-status endorsements varies according to how closely products adhere to stringent interpretations of moral norms. Specifically, when a product is less compliant with stringent interpretations of moral standards, the reassurance from high-status moral advisors should have a greater effect on consumers' willingness to accept the product as morally legitimate. In other words, endorsement from high-status actors is more valuable in uncertain circumstances, e.g., when the moral compliance of the product is harder to evaluate. Conversely, when products already conform closely to stringent interpretations of moral norms, endorsements should provide less incremental reassurance and thus matter less. This implies a compensatory relationship between status signals and compliance with norms in contested markets characterized by salient but ambiguous moral criteria.

This logic aligns with findings from prior work suggesting that substantive product qualities can substitute for status signals, particularly in settings with high uncertainty. For instance, Malter (2014) demonstrated that the pricing premium associated with historic wine classifications weakens once actual product quality is considered. Similarly, Gomulya and Boeker (2014:1764) found that the benefits of appointing a high-status CEO are greater during severe crises when uncertainty is heightened, underscoring that evaluations depend jointly on status signals and substantive contextual factors.

Building explicitly upon these insights, we argue that the mechanism of reassurance through high-status moral endorsements should be less operative for products that already closely comply with stringent interpretations of moral norms. Thus, as a direct test of this mechanism, we propose:

> ***Hypothesis 2:*** *In a contested market, the relationship between endorsements by high-status moral advisors and consumers' acceptance of lower financial returns will be weaker when the product complies with more stringent interpretations of morality.*

DATA AND METHODOLOGY

The rapid growth of the *sukuk* market and the lack of a standardized information source about these products led IdealRatings – a California-based company specializing in data for socially responsible investments – to develop a subscription-based information service. IdealRatings' comprehensive *sukuk* database, which includes all major *sukuk* listed on global finance platforms,[2] is the primary source of data for our analyses. The database provides detailed financial information (e.g., issue amount, coupon rate, tenor), *Shariah* compliance ratings, and the names of approving scholars for each *sukuk*. We analyze 1,540 *sukuk* issued from 2012 to 2017, representing about 40% of the total *sukuk* market's amount issued each year, based on the market sizes reported in the International Islamic Finance Market's yearly *sukuk* report (IIFM 2025). To enrich understanding of our empirical setting, we also read books and articles about Islamic finance and conducted background interviews with 9 *Shariah* scholars. We tested our theoretical arguments about the role of high-status moral advisors' endorsements in cultivating acceptance

[2] IdealRatings populates its *sukuk* database – the basis for our analysis – from the Eikon and Bloomberg financial databases. This includes all *sukuk* publicly offered for which full information is accessible to investors.

for products within contested markets by examining the relationship between sheikhs' endorsements and *sukuk* coupon rates (i.e., the yearly amount a producer must pay *sukuk* holders as a return on their invested capital). We now turn to describing the variables used in our analysis, as well as the model specification.

Dependent variable. Our dependent variable is each *sukuk*'s *Coupon rate,* i.e., the fixed annual interest payment that the bond issuer promises to pay, expressed as a percentage of the bond's face value (or par value). This rate is set when the bond is first issued and does not change. For example: A $1,000 bond with a 5% coupon rate will pay the investor $50 in interest every year, no matter what happens to the bond's price on the market. Coupon rates are set by issuers with their arrangers, who are cognizant of what consumers are willing to accept. While the coupon rate is determined by the issuer and arranger, it is not an arbitrary "asking price"; rather, it is calibrated at issuance to ensure the bond successfully clears the market. Our dataset from IdealRatings comprises *sukuk* that where fully issued and placed, with complete financial information available to investors. Accordingly, the observations reflect completed market transactions rather than unsuccessful issuance attempts.

Since the coupon rate represents an issuer's cost of capital, they would generally prefer to offer lower rates. Conversely, *sukuk* holders would prefer higher coupon rates, all else equal, since they would equate to higher returns. Thus, considering this tension, and following the logic of previous work (Fang, 2005; Mickey 2010; Obloj and Capron 2011), we use coupon rates to infer the value consumers place on high-status moral advisors' endorsements (i.e., their willingness to forego higher returns). If we observe a negative relationship between high-status endorsements and coupon rates, it indicates that consumers are willing to accept lower financial returns when higher-status moral advisors are affiliated with the *sukuk* – an indicator of the value consumers place on these affiliations. The coupon rate is multiplied by 100 to ease interpretation (for example, a 5% coupon rate will be denoted as 5).

Independent variable. To proxy the status of the moral advisors affiliated with a *sukuk*, we counted the number of 'sheikhs' among the *Shariah* scholars who approved each *sukuk*. In Islamic culture, 'sheikh' is an honorific title signifying respect, commonly denoting a religious leader (White

2010). Originally from the Arabic word for 'Chief/Elder', it is akin to 'Sir/Dame' or 'His/Her Highness' in English (The Royal Herald 2018; The Oxford Dictionary of Islam 2023). The title is usually conferred by community leaders or a council of sheikhs (Anyships 2024). Although the criteria and conditions determining the right to become a sheikh vary between cultures, a sheikh generally must possess deep knowledge of Islam, coupled with virtue and morality as a leader in their community. As a Qatari Islamic scholar explained to us, sheikhs are "well-known Islamic preachers who advise the public on general religious matters" and "can fully understand and interpret Quranic verses." The sheikh title is given to those who are "famous and respected by many Muslims." Given that status denotes the esteem or honor in which an entity is held (Goode 1979), we believe it is reasonable to conclude that sheikhs are higher status than other *Shariah* scholars. Notably, the most prominent scholars of the Islamic finance industry, those considered its founders and standard-setters, are all sheikhs (AAOIFI 2023). In our dataset, there are 64 sheikhs (out of 161 *Shariah* scholars), and the average *sukuk* includes 3.5 sheikhs on its board, representing approximately half of the average board size of 6.9 scholars. Figure 1 shows the proportion of *sukuk* in our dataset at each number of sheikhs.

Insert Figure 1 about here

Moderator variable. To test Hypothesis 2, which posits that a product's compliance with more strict interpretations of morality moderates the relationship between high-status endorsements and coupon rates, we used the *Shariah compliance score*, as provided by IdealRatings. The ratings are based on 21 general and 23 product-specific criteria that comprehensively cover all *sukuk* standards across different *Shariah* schools of thought. Each criterion is weighted by its importance in *Shariah* law, so that the total points associated with it can range from 1 to 5 points. The criteria themselves range from whether the proceeds of the *sukuk* will be used in *Shariah*-compliant investments to more technical aspects, such as whether *sukuk* holders are restricted from their asset disposition rights. All the rating criteria are based on objective factors, meaning the *sukuk* prospectus must explicitly outline the relevant factors to receive a score for that criterion, preventing the rater's perception from influencing the assessment. Consistent with

our observation that the meaning of *Shariah* compliance is contested in this setting, it is worth noting that there is no agreement on what score constitutes 'complete' or even 'sufficient' *Shariah* compliance[3]. We report the distribution of the IdealRatings *Shariah* compliance score in Figure 2. As the figure shows, the vast majority of *sukuk* have compliance scores ranging from 21 to 89 (2 standard deviations above and below the mean of 55). The wide range of scores and lack of clustering around a particular value further illustrate the lack of consensus on moral features in this market.

Insert Figure 2 about here

Control variables. We first controlled for variables relating to the *Shariah* scholars associated with a given *sukuk*. First, we accounted for the possibility that certain scholars are sought after because they are more willing to grant their approval, rather than because they are high-status. We thus captured a scholar's history of leniency, measured by the *average Shariah compliance score of other sukuk approved by Shariah scholars* affiliated with a given *sukuk* in all previous years in our dataset before year *y*. Our results are robust to the use of alternative timeframes for calculating this variable – specifically, the previous year and the previous two years. We also added the variable *Average count of the same issuer and Shariah scholars together* and *Average count of the same arranger and Shariah scholars together* in all previous years before year *y,* which accounts for the familiarity between the issuer and scholars and the issuer and arranger, respectively. Note that our results hold the same when we calculate this leniency and the two familiarity variables using only sheikhs, rather than all scholars on the board. We also included the *count of Shariah scholars* (i.e., both sheikhs and non-sheikhs) approving the *sukuk.* In doing

[3] The maximum *Shariah* compliance score of IdealRatings is 215. However, this is only a "theoretical" maximum, as it encompasses the total points across all types of *sukuk*. A single *sukuk* could never obtain all of these points, because adopting some features precludes adopting others. For example, a few criteria are about the underlying commodities of *sukuk*; there are questions such as whether the commodities will be sold to the original seller, or whether the commodities will be sold on a deferred payment basis. If the *sukuk* is not based on a commodity asset, then the criteria are based on whether there is partial transfer of ownership of the asset or whether there is a repurchase of the asset. There is simply no *sukuk* that would be able to meet all the mutually exclusive requirements listed in IdealRating's criteria.

so, we follow the logic of past board research, which controls for 'board size' (Abdullah, Ismail and Nachum 2016; Solal and Snellman 2019).

We also controlled for various *sukuk*-specific characteristics: the *complexity* of the product (whether the *sukuk* is a traditional *Ijara*), the *opacity* of the product (whether the *sukuk*'s assets are defined or disclosed)[4], the *Original issue amount* in millions of USD, *Bond exchange* (whether the *sukuk* is listed on a bond exchange), *International sukuk* (whether the *sukuk* is issued for an international market rather than domestic), *Investment-grade* (whether the *sukuk* is rated investment-grade for its financial risk and 0 if it is rated as a junk bond), *Multiple structures* (whether the *sukuk* is based on multiple product structures vis-à-vis a single product structure), and the *Count of sukuk issued by the same arranger* in the same year. We also included the variables *Floating rate* (versus a fixed rate) and *Frequency* of coupon rate payment (semiannual or not). To account for the interdependence between *sukuk* with the same issuers and arrangers, we added issuer and arranger fixed effects in our models. There are a total of 209 issuers and 52 arrangers in our dataset. Lastly, we used fixed effects to control for the month and the year the *sukuk* was issued. Table 1 shows descriptive statistics and correlations amongst variables.

Insert Table 1 about here

Model specification: Heckman procedure

Not all *sukuk* receive *Shariah* scholar endorsement; about 75% do. T-tests revealed several differences between *sukuk* with and without endorsements. *Sukuk* endorsed by scholars had higher coupon rates (an average score of 4.3% for *sukuk* with scholars versus an average score of 3.3% for *sukuk* with no scholars, $(|T| > |t|) = .000$). Endorsed *sukuk* were larger in original issue amount (average of 122.6 million USD for *sukuk* with scholars vs. 38.1 million USD for *sukuk* with no scholars ($(|T| > |t|) = .000$)), more likely be listed on a bond exchange (5% listed on a bond exchange for *sukuk* with scholars vs. 1% for *sukuk* with no scholars ($(|T| > |t|) = .001$), and more frequently listed internationally rather than only

[4] We note that our results remain the same and coefficients only change very slightly when we exclude the complexity and opacity variables.

domestically (11% listed internationally for *sukuk* with scholars vs. 1% for *sukuk* with no scholars (|T| > |t|) = .000). These observable differences between *sukuk* that obtain endorsement versus those that do not lead us to consider that unobservable heterogeneity may also exist. Because this could bias our results, we used the Heckman two-step selection procedure to address this issue (Greene 2003). In the first step, this procedure generates a predicted probability of *Shariah* scholar endorsement. In the second step, the inverse of this predicted probability is used as a variable in models predicting our key dependent variable, the coupon rate. For the first step of the Heckman procedure, we identified two instrumental variables based upon previous *sukuk* market studies (Alnaggar and Othman 2019; Ahmed, Amran and Islam 2018). These two variables are: *Sukuk regulation in country* (a binary variable indicating whether the country where the *sukuk* is issued has specific *sukuk* regulations) and *Shariah governance framework in country* (a binary variable indicating whether the country where the *sukuk* is issued has *Shariah* governance guidelines for Islamic financial institutions). Approximately 92% of the *sukuk* in our dataset are issued in countries with *sukuk* regulations, and 93% are in countries with a *Shariah* governance framework. For the first instrument, we suspected that countries with *sukuk* regulation were more likely to have national *Shariah* boards that formulate *sukuk* regulation and advocate for *Shariah* scholar endorsements, thereby increasing the likelihood of *Shariah* scholar involvement. For the second variable, we reasoned that *sukuk* issued in countries with *Shariah* governance frameworks would likely have more consensus on what constitutes good *Shariah* governance, making *Shariah* scholar endorsements less necessary for cultivating consumer acceptance and less frequent.

Results of the first-step logistic regression predicting the existence of *Shariah* scholars endorsing the *sukuk* can be found in the Appendix Table 1. We identified the influence of our two instrumental variables as primarily mediated through *Shariah* scholars, thus indicating the exogenous nature of our instruments. In other words, the primary economic function of regulatory and governance structures is compliance to *Shariah* law and strengthening of *Shariah* oversight (Ahmed 2010; Ginena 2014), and without this effect, the instruments themselves are largely inert in determining the coupon rate. This is also confirmed by running a model predicting coupon rate using our two instrumental variables, shown in

the Appendix Table 2, and both instruments were not statistically significant. Our first-stage regression yielded a chi-square of 369.43 (p > chi-sq = .000), providing confidence in the relevance of our instruments. After predicting the likelihood of a *sukuk* obtaining endorsement from any scholar, we generated an inverse Mills Ratio. We then included this ratio in OLS regressions with robust standard errors at the individual *sukuk* level to test our hypotheses. In the second step, our models were restricted to *sukuk* with *Shariah* scholar endorsement. Although we believe the Heckman procedure offers important methodological advantages, our findings are robust; results are consistent even without the initial selection correction.

RESULTS

Table 2 presents the results of OLS regression models predicting coupon rates. Model 1 includes the control variables and our moderator variable, *Shariah compliance score*. We find a negative association between *Shariah* compliance score and coupon rates (β = -.03; p = .031). This significant negative relationship between the compliance score and coupon rate suggests that consumers are willing to accept lower financial returns for *sukuk* with more stringent product features, indicating that they value moral compliance in the *sukuk* market[5].

We then turn to examining our main theoretical interest: how a *sukuk*'s high-status affiliations affect its coupon rates. As shown in Model 2, this relationship holds net of an extensive set of controls (β = -.50; p = .007). This result support our prediction in Hypothesis 1 that products with more high-status affiliations would be associated with lower coupon rates. Since lower coupon rates correspond to lower returns for consumers, this finding indicates the value consumers place on these endorsements; they are willing to sacrifice financial returns for them.

Insert Table 2 about here
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[5] This finding suggests that if issuers aimed to optimize on coupon rates alone, they would always endeavor to create producers that had higher levels of compliance. However, our interviews with *Shariah* scholars indicated that *sukuk* issuers also create lower-compliance products for various reasons. For example, they may seek to innovate or attract a customer segment that desires higher returns or seek new market opportunities and customer segments.

We then test Hypothesis 2, which posited that a product's adherence to more stringent interpretations of moral standards would weaken the negative relationship between endorsements from high-status moral advisors and coupon rates. In Model 3, we test the interaction between *Shariah compliance score* and *Count of sheikhs.* As can be seen, the interaction is positive and significant (β = .015; p = .005), which supports our second hypothesis. Panel A of Figure 3 illustrates this interaction at low (1 standard deviation below the mean) and high (1 standard deviation above the mean) values of the *Shariah compliance score.* It shows that the impact of high-status moral advisors on coupon rates depends on the compliance score. When compliance is low, the negative relationship between *Count of sheikhs* and *Coupon rate* is steeper, indicating that scholarly endorsements have a substantial impact on coupon rates. Specifically, at low stringency, the difference in *Coupon rates* between a *sukuk* with the lowest and highest scholar status is almost 10 points. However, when compliance is high, the difference narrows to approximately 4 points. This 6-point difference in difference is sizable, considering one standard deviation of the coupon rate is 2.63.

As an additional sensitivity analysis to clarify the effects where confidence intervals overlap in Panel A of Figure 3, we tested whether the conditional marginal effects at low and high levels of *Shariah compliance score* are meaningfully different when *Count of sheikhs* is high (i.e., at all values from 5 and above). We confirm that the pairwise comparison of the conditional marginal effects are all statistically meaningful – i.e., at all high values of *Count of sheikhs*, there is still a statistically significant difference in effects for high and low *Shariah compliance score*. For the sake of illustration, we plot this test for the highest value of *Count of sheikhs* (14) in Panel B of Figure 3 (p = .005). For the difference in conditional marginal effects to be statistically meaningful, the displayed confidence interval should not overlap or cross the zero threshold, which is the case in the figure.

Overall, the weaker relationship between scholar status and coupon rate when the *sukuk* adheres to more stringent interpretations of morality suggests that high-status scholars provide less benefit (in terms of consumer willingness to accept lower returns) when the product is already abiding by more stringent moral interpretations. This suggests that status and compliant product features serve as at least

partial substitutes. Before presenting several robustness checks to ensure the validity of our main results, we offer supplementary analyses designed to enhance the understanding of the deployment of high-status moral advisors in contested markets.

Insert Figure 3 about here

Extended Analyses

Predictors of high-status endorsements. Building on our primary findings, we conducted extended analyses to further investigate the use of high-status endorsements in contested markets. Although our main findings indicate that affiliating with high-status moral advisors can be beneficial, not all producers choose to do so. This raises the question of why some producers use this approach while others do not. Thus, we examined the predictors of high-status endorsements.

We propose two factors that make producers especially likely to seek high-status endorsements. The first factor we consider is product space complexity. Product space complexity refers to "the degree of heterogeneity in the attributes of products marketed" in a particular category (Barroso and Giarratana 2013:1436). In general, consumer search and evaluation costs are higher in more complex product spaces (Johnson and Payne 1985). To address this, consumers often focus on a more limited subset of key attributes, or they defer to influential third-party experts, rather than evaluating a complicated product. Thus, we expect that the use of high-status scholar endorsements will be associated with a product's complexity, with the use of endorsements being less prevalent with the *sukuk* being less complex.

To test the relationship between product space complexity and high-status endorsements, we use the variable *Ijara* (a dummy of "1" for *ijara sukuk* and "0" for all other types of *sukuk*). We then estimated negative binomial regressions with the *Count of sheikhs* as the dependent variable. *Sukuk* are usually structured based on traditional Islamic finance products, such as *ijara*, *murabahah*, and *wakalah*, amongst others. *Sukuk* al-*ijara* are known as the most traditional and simplest structure of a *sukuk* (Aljazira Capital 2014; IslamicMarkets 2024). A *Shariah* scholar we interviewed explained that *ijara* is

"the easiest type of *sukuk*" to issue, and another noted that it "had been done and dusted many, many times." Literally defined as a 'lease', *ijara* products involve the transfer of an asset to another party in exchange for rent. *Ijara sukuk* is commonly considered "the classical *sukuk* structure from which all other *sukuk* have been developed" (Sa'ad 2019:108). Thus, *ijara sukuk* became widely used in the Islamic finance industry due to its simple sale and leaseback structure, which leaves little room for interpretation (Sa'ad 2019; IslamicMarkets 2024). Although its prominence has decreased over the years since due to market innovation (IIFM 2017), *ijara* products are still widely regarded as the most elementary *sukuk* type. In our dataset, 19% of *sukuk* are *ijara sukuk*. As shown in Model 1 of Table 3, the variable *Ijara* has a significant negative relationship with *Count of sheikhs* (β = -.27; p = .03), supporting the idea that less complex *sukuk* tended to have fewer high-status endorsements.

The second factor we consider is a product's opacity. As Briscoe and Murphy (2012:554) define, opaque products or practices are those "for which observers have difficulty identifying key characteristics." For instance, in the absence of proactive disclosure by producers, consumers of fast fashion have little insight into the manufacturing conditions or the ecological consequences of their purchases. Opacity can stem from a lack of disclosed information about a product or from design features and complex language that obscure key aspects of the product.

In general, opacity is a barrier to recognizing, understanding, and positively evaluating new products or practices; when consumers cannot comprehend a product, they tend to avoid or devalue it (Zuckerman 1999). In contested markets, as Briscoe and Murphy (2012) show, experts and professionals can play an especially important role in making opaque products understandable without fully disclosing their details. We expect that a similar argument applies to the case of high-status moral advisors. When a product is opaque, producers will anticipate that consumers may need more reassurance, and they will accordingly be more likely to seek endorsements from high-status moral advisors.

In the context of the *sukuk* market, we derive a measure product opacity that follows on the fact that *sukuk* are usually backed by a tangible underlying asset or business venture, which must be *Shariah* compliant. While the asset underlying the *sukuk* is usually detailed in the *sukuk*'s prospectus, sometimes

the asset is not clearly defined or disclosed. Thus, we measure product opacity with a binary variable, *Asset not clearly defined or not disclosed* in the *sukuk* prospectus, coded "1" if the *sukuk*'s assets are not clearly defined or not disclosed (as rated by IdealRatings) and "0" otherwise. Approximately 44% of *sukuk* in our sample are rated by IdealRatings as having assets that are not clearly defined or not disclosed.

We expect that product opacity will be associated with more high-status endorsements, as producers seek out these endorsements to reassure consumers. Results in Model 2 of Table 3 indicate that *Asset not clearly defined or not disclosed* has a positive relationship with *Count of sheikhs* (β = .13; p = .02). This provides suggestive evidence that product opacity may drive producers to seek out high-status endorsements. Model 3 shows the effects of the two predictors, complexity and opacity, together.

Insert Table 3 about here

Robustness checks

We conducted several robustness checks to confirm the validity of our results, which are shown in Table 4. First, we note that the relationship between the *sukuk* issuer and arranger may be correlated to the issuer's ability to obtain high status scholars to endorse its *sukuk*. We thus ran our models with clustered standard errors at the paired issuer-arranger level to account for this interdependence. We confirm that our results hold the same, and results are shown in Model 1. Second, we tried alternative specifications of our independent variable *Count of sheikhs.* Instead of including the count of sheikhs as well as the total number of *Shariah* scholars endorsing the product, we used *Percentage of sheikhs*[6], which was calculated by dividing the count of sheikhs by the total number of scholars endorsing the *sukuk*. As can be seen in Model 2, this variable was also negative and significant (β = -2.94; p = .006) in predicting coupon rates. We then created a dummy variable which is set to "1" if the percentage of

[6] We choose to use the count of sheikhs rather than a percentage as the former suits our theory of external evaluations better, since it is the more direct, observable metric that investors are likely to see in the sukuk's prospectus (i.e. they are more likely to recognize "3 sheikhs", rather than cognitively think "30% of the board are sheikhs"). Results are similar with both variables.

sheikhs was higher than 50%, which would then constitute a majority-sheikh board. As can be seen in Model 3, this dummy variable was also negative and significant (β = -1.99; p = .002). Further, in models not shown but available upon request, we created dummy variables for each of the counts of sheikhs, and found that all statistically significant relationships with coupon rate are negative. These tests provide us more confidence that our results are robust to alternative operationalizations of our independent variable.

Third, we investigated whether endorsements from lower-status individuals (non-sheikhs) had a similar negative relationship with coupon rates as we observed for high-status individuals (sheikhs). Our theory predicts that only high-status endorsements will be associated with consumer willingness to accept lower returns. Thus, less distinguished scholars should not affect coupon rates in the same way high-status scholars do. To test this, we re-ran our main models, with the addition of a variable for the count of non-sheikhs on the board. As can be seen in Models 4 and 5, the variable *count of non-sheikhs* seems to have a positive and significant effect on the coupon rate (β = .40; p = .00), but it does not seem to affect coupon rates when the *sukuk* abides by more stringent interpretations (interacted term: β = -.00; p = .42). This buttresses our theory that customer willingness to accept lower returns is driven by scholars with high status, and that we should not expect the same mechanisms to hold with all types of scholars or scholars with low status.

Insert Table 4 about here

Fourth, we consider the possibility that coupon rates might be driven by factors other than the status of the *Shariah* scholars endorsing the product. To account for the *sukuk* issuer and their financial profile, our main models control for the original amount issued and the investment grade rating of the *sukuk* as a proxy for the issuer's financial risk, as rated by financial agencies S&P, Fitch, or Moody's. We also included *sukuk* issuer fixed effects in our main models. Fixed effects address concerns about time-invariant unobserved heterogeneity. While fixed effects do not eliminate the possibility that time-varying unobserved characteristics affect our results, we are less concerned about these because 62% of issuers had issued a single or multiple *sukuk* in one year and 81% of our sample within 3 years. We do not

believe that the issuer's financial situation should change markedly in a short time period, especially if the issuer is still able to successfully issue *sukuk* – and if it does, it should be captured by the original amount issued and the investment grade rating in our controls. Therefore, we do not believe that issuer unobserved heterogeneity over time will be a major driver of our results.

Nonetheless, recognizing that other unobserved issuer-related variables might influence the *sukuk*'s coupon rate, we further assessed the issue of unobserved heterogeneity by estimating the impact threshold of a confounding variable (ITCV) (Frank 2000; Hubbard, Christensen, and Graffin 2017). ITCV is a statistical analysis that quantifies the severity of endogeneity by determining how many currently significant cases an omitted variable would have to overturn for the results to become insignificant (Frank 2000). The ITCV results indicate that to confound our findings, an omitted variable would need to overturn 518 observations among the currently significant cases in the model predicting *Coupon rates*. To invalidate the inference, 47.46% of the estimated effect for *Count of sheikhs* would have to be due to bias and be replaced with cases showing zero effect (Busenbark, Lange, and Certo 2017). Our robustness tests thus provide reasonable confidence that our findings are not primarily driven by unobserved variation.

DISCUSSION

Many markets are sites of persistent moral contestation, entailing ongoing debates over the morality of key inputs, production methods, product features, and exchange itself. Yet, scholars "typically treat the period of debate over category attributes as a transitional phase on the road to stability and conformity in the market" (Arjaliès and Durand 2019:889). As a result, there is limited knowledge regarding the tactics producers use when there is a lack of consensus on what is moral and what is not. In this paper, we examined how producers' ties to high-status moral advisors helped enhance acceptance of products in markets where contestation is ongoing.

Our analyses of *sukuk* – an Islamic finance product where there is much debate about the appropriateness of various product features – showed that *sukuk* with more high-status endorsements tended to have *lower* coupon rates. Because lower coupon rates equate to a reduction in financial returns for consumers, this finding underscores that consumers find these endorsements valuable; they are willing

to sacrifice financial returns to some degree when a product has more high-status endorsements. Thus, high-status endorsements may provide a way for producers to bolster the acceptability of their products in contested markets. In supplementary analyses, we also sought to identify the conditions under which producers were especially likely to seek out endorsements. Consistent with expectations, we found that *sukuk* were more likely to have endorsements when they were more complex or opaque. This is sensible, given that consumers may especially want reassurance in those cases.

Our findings highlight an interesting – and, in our view, underappreciated – duality within contested markets. On the one hand, the lack of consensus regarding the moral acceptability of specific product features and practices makes product design choices riskier for producers and may cause consumers to be reluctant to make a purchase. On the other hand, the lack of consensus also offers producers some degree of flexibility, provided they can draw on endorsements to help persuade consumers to accept their products. Indeed, the distribution of compliance scores in our data was quite large. Thus, our research paints a picture of contested markets in which the lack of consensus on what, precisely, is morally acceptable generates both challenges and opportunities.

This duality may lead to a multiplicity of viable strategies. Prior research has suggested that producers in moral markets often face a trade-off between adhering to the strictest moral guidelines and thereby limiting their financial growth, or instead adopting more lenient standards but appealing to a wider pool of customers (Reinecke and Ansari 2015). Our research suggests that another approach is to eschew working toward consensus at all. If producers can find another way of reassuring consumers of their product's moral acceptability without having to agree on a specific set of acceptable product features, doing so may provide opportunities for producers with a diverse set of strategies to thrive, targeting different segments of customers and ultimately leading to further growth of the market overall. This finding runs counter to some work in economic sociology, which emphasizes the importance of consensus and shared meanings in order for markets to grow (Navis and Glynn 2010; Rosa et al. 1999). It would be useful for future work to consider market-level conditions whereby growth can occur despite a fragmentation of meanings, or, conversely, where growth is predicated on consensus.

In addition, this study enhances understanding of the repertoire of tactics producers may use to burnish their moral credentials. Prior work has highlighted a wide range of tactics that producers have employed to lay claim to morality, such as engaging in strategic framing or discourse at the market level (Ameling 2011; Chan 2009; Weber et al. 2008), restructuring the nature of exchange (Hoang 2018; Schilke and Rossman 2018) or establishing formal certification regimes (Bartley 2007; Lee et al. 2017). Yet, prior to our research, the role of strategic affiliations had been largely overlooked in this literature, despite ample research in economic sociology more broadly showing that strategic affiliations can reassure relevant audiences about a product's quality and/or bolster actual quality (Ertug and Castellucci 2013; Pollock et al. 2010). In contested markets, high-status affiliations are advantageous relative to other tactics because they allow a producer to cultivate the perception that a given set of product features or production practices are morally acceptable, without requiring the field to reach consensus on precisely what that entails on a granular level.

Limitations

While our paper offers several contributions to the literature, it does have some limitations. First, although our research shows that consumers are willing to trade off financial returns (i.e., accept lower coupon rates) when a product has the stamp of approval from high-status moral advisors, we do not know at a fine-grained level why consumers react this way. It could be because they truly believe that these products are more *Shariah*-compliant than others. Alternatively, the endorsements may merely make consumers feel that it is defensible or socially acceptable to purchase these products, even if they do not personally believe they are more *Shariah*-compliant. This distinction corresponds to the difference between first-order and third-order beliefs in the status literature (Correll and Ridgeway 2006). Future research designs that provide access to more fine-grained data on consumer thought processes could help disentangle these mechanisms.

Second, although our findings speak to the consequences of affiliations with high-status moral advisors for consumers (in terms of financial returns) and producers (in terms of costs), we lack a full picture of the motives that drive producers to create the types of products that they offer. Although it was

not a major emphasis of our analyses, our findings showed that higher compliance scores were associated with lower coupon rates. We view this as clear evidence of the value consumers place in having producers that abide by stricter interpretations of morality, even if moral standards remain contested. However, if producers were to focus on this metric alone, we would expect them to endeavor to create products that are more compliant, because doing so lowers their costs (insofar as the coupon rate is a cost). Thus, it is puzzling that we observe products with a wide spectrum of compliance scores. This suggests other factors must play a role in producers' decision-making as well; for example, perhaps producers create some products that are lower in compliance because they desire to innovate or reach subsets of customers that prefer a higher return. Additional research is needed to understand the complex motives of producers in contested markets.

Third, although we have taken steps to ensure that our regression analyses compare how consumers react to *sukuk* that have more vs. fewer high-status moral advisors associated with them, we acknowledge that our data are observational, and our results remain correlational. Thus, although we believe it is unlikely, omitted variable bias is always a possibility with this type of data, in which we trade off external validity for the control afforded by experimental approaches. Future studies could employ research designs capable of identifying causal relationships to further test our theoretical propositions.

Conclusion

In summary, we examined how producers navigate the distinct challenges of contested markets. We found that producers who cultivate ties to high-status moral advisors can enhance the acceptance of their products. This finding adds to our understanding of the full repertoire of tactics producers may use to enhance their moral appeal, promoting their survival amidst ongoing contestation. Building knowledge in this area is crucial, as consumers are becoming more cognizant of the morality and ethics underlying their consumption decisions, while at the same time, interpretations of morality are a matter of ongoing debate. We hope our work sparks further interest in this topic and greater exploration of the full range of tactics that producers can use to cultivate moral acceptance in contested markets.

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Table 1. Descriptive Statistics and Correlation Table

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Coupon rate	4.34	2.63																
2	Status: Count of sheikhs	3.5	2.67	-0.08															
3	*Shariah* compliance score	55.09	17.34	0.18	-0.04														
4	Average *Shariah* compliance score of scholars	57.27	1.16	-0.05	-0.27	0.29													
5	Average count of the same issuer and *Shariah* scholars together	3.7	7.15	-0.32	0.22	-0.33	-0.10												
6	Average count of the same arranger and *Shariah* scholars together	45.94	67.26	-0.19	0.35	-0.19	-0.30	0.33											
7	Count of *Shariah* scholars	6.9	3.75	0.09	0.51	0.03	-0.31	-0.01	0.10										
8	Low complexity: Ijara	0.19	0.39	0.06	-0.01	0.24	-0.09	-0.14	0.03	-0.05									
9	High opacity: Assets not defined or disclosed	0.44	0.5	0.16	0.13	0.10	0.05	-0.22	-0.14	0.11	-0.21								
10	Original issue amount in USD million	120.5	391.5	-0.06	0.27	0.10	0.08	-0.07	-0.02	0.06	0.07	0.00							
11	Bond exchange	0.05	0.22	-0.16	0.05	-0.19	0.03	-0.01	-0.03	-0.11	-0.09	0.21	-0.02						
12	International sukuk	0.11	0.31	-0.15	0.32	0.11	-0.01	-0.03	-0.06	-0.02	0.11	0.07	0.33	0.33					
13	Investment-grade	0.98	0.13	-0.05	-0.17	-0.07	0.01	0.02	0.02	0.00	-0.20	-0.02	-0.22	0.00	-0.37				
14	Multiple structures	0.16	0.37	0.00	0.12	0.20	0.00	-0.12	0.10	-0.02	0.51	-0.06	0.14	-0.04	0.15	-0.18			
15	Count of sukuk produced by same arranger	63.79	40.48	0.05	0.17	-0.24	-0.28	0.27	0.41	0.27	-0.01	-0.07	-0.17	0.04	-0.30	0.18	0.00		
16	Floating	0.09	0.28	-0.05	0.04	-0.01	-0.05	0.05	0.11	-0.07	0.01	-0.03	0.02	-0.04	0.02	0.00	0.02	-0.03	
17	Frequency	0.83	0.37	0.59	-0.13	0.26	0.03	-0.43	-0.22	0.13	0.17	0.00	0.09	-0.22	-0.12	-0.06	0.11	-0.02	-0.07

Table 2. OLS Regression Predicting *Sukuk* Coupon Rates with Heckman Selection Procedure

VARIABLES	Model 1 Controls-only	Model 2 H1	Model 3 H2
Status: Count of sheikhs		-0.497**	-1.315***
		(0.184)	(0.352)
Shariah compliance score	-0.028*	-0.043**	-0.115***
	(0.013)	(0.015)	(0.029)
Status: Count of sheikhs * *Shariah* compliance score			0.015**
			(0.005)
Average *Shariah* compliance score of scholars	-0.937	-0.671	-0.695
	(0.685)	(0.682)	(0.658)
Average count of the same issuer and *Shariah* scholars together	-0.061*	-0.068**	-0.063*
	(0.025)	(0.026)	(0.026)
Average count of the same arranger and *Shariah* scholars together	-0.009***	-0.009***	-0.009***
	(0.002)	(0.002)	(0.002)
Count of *Shariah* scholars	0.361***	0.386***	0.400***
	(0.072)	(0.074)	(0.075)
Low complexity: Ijara	0.148	0.400	0.766+
	(0.341)	(0.372)	(0.421)
High opacity: Assets not defined or disclosed	0.514*	0.524**	0.443*
	(0.204)	(0.202)	(0.187)
Original issue amount in USD million	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
Bond exchange	-2.148*	-2.554*	-2.144+
	(1.043)	(1.191)	(1.222)
International sukuk	-1.183	-0.607	-0.989
	(0.817)	(1.009)	(1.050)
Investment-grade	0.686	1.469	1.053
	(0.897)	(1.232)	(1.063)
Multiple structures	-0.601	0.593	0.895
	(0.800)	(1.051)	(1.035)
Count of sukuk produced by same arranger	-0.009*	-0.010*	-0.008+
	(0.004)	(0.004)	(0.004)
Floating	-0.091	-0.082	-0.085
	(0.120)	(0.121)	(0.122)
Frequency	2.886***	2.836***	2.716***
	(0.360)	(0.358)	(0.365)
Inverse Mills Ratio	1.096	1.344*	0.899
	(0.700)	(0.682)	(0.713)
Constant	60.286	47.248	50.858
	(38.607)	(38.267)	(37.014)
Issuer and Arranger, Month and Year F.E.	Y	Y	Y
Observations	1,092	1,092	1,092
R-squared	0.767	0.770	0.771

Robust standard errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Table 3. Estimated Coefficients from Negative Binomial Regressions Predicting the Number of High Status (Sheikh) Endorsements

	Model 1	Model 2	Model 3
VARIABLES	**Opacity**	**Complexity**	**Opacity & Complexity**
Low complexity: Ijara	-0.268*		-0.296*
	(0.126)		(0.141)
High opacity: Assets not defined or disclosed		0.129*	0.144*
		(0.056)	(0.063)
Count of *Shariah* scholars	-0.014	-0.007	-0.012
	(0.009)	(0.007)	(0.008)
Original issue amount in USD million	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
Bond exchange	-0.088	-0.023	-0.102
	(0.195)	(0.180)	(0.221)
International sukuk	0.128	0.047	0.040
	(0.239)	(0.240)	(0.248)
Investment-grade	0.197	0.413*	0.364+
	(0.157)	(0.171)	(0.190)
Multiple structures	0.617***	0.588***	0.569***
	(0.160)	(0.152)	(0.173)
Count of sukuk produced by same arranger	-0.001	-0.001	-0.000
	(0.000)	(0.001)	(0.001)
Inverse Mills Ratio	0.183+	0.216*	0.193*
	(0.097)	(0.096)	(0.094)
Constant	-14.180	-13.694	-13.811
	(0.000)	(0.000)	(0.000)
Issuer, Arranger, Year F.E.	Y	Y	Y
Observations	1,092	1,092	1,092

Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Table 4. Robustness Checks

VARIABLES	Model 1 Paired Issuer-Arranger S.E.	Model 2 Alt. IV - Percentage of sheikhs	Model 3 Alt. IV - Majority percentage of sheikhs	Model 4 Non-sheikhs	Model 5 Non-sheikh interaction
Status: Count of sheikhs	-1.315*			-0.916**	-0.717+
	(0.631)			(0.320)	(0.423)
Status: Count of sheikhs * *Shariah* compliance score	0.015+			0.015**	0.012+
	(0.008)			(0.005)	(0.007)
Percent of sheikhs		-2.944**			
		(1.078)			
Percent of sheikhs above 50% (dummy)			-1.986**		
			(0.627)		
Count of non-sheikhs				0.400***	0.518***
				(0.075)	(0.156)
Count of non-sheikhs * *Shariah* compliance score					-0.002
					(0.003)
Shariah compliance score	-0.115*	-0.036**	-0.037**	-0.115***	-0.090*
	(0.046)	(0.013)	(0.013)	(0.029)	(0.044)
Average *Shariah* compliance score of scholars	-0.695	-0.494	-0.365	-0.695	-0.767
	(1.113)	(0.592)	(0.583)	(0.658)	(0.665)
Average count of the same issuer and *Shariah* scholars together	-0.063	-0.058*	-0.064*	-0.063*	-0.059*
	(0.048)	(0.025)	(0.025)	(0.026)	(0.029)
Average count of the same arranger and *Shariah* scholars together	-0.009	-0.009***	-0.009***	-0.009***	-0.009***
	(0.006)	(0.002)	(0.002)	(0.002)	(0.002)
Count of *Shariah* scholars	0.400**	0.144+	0.128+		
	(0.145)	(0.083)	(0.076)		
Low complexity: Ijara	0.766	0.235	0.156	0.766+	0.700+
	(0.594)	(0.349)	(0.344)	(0.421)	(0.420)
High opacity: Assets not defined or disclosed	0.443	0.479*	0.558**	0.443*	0.450*
	(0.369)	(0.194)	(0.200)	(0.187)	(0.186)
Original issue amount in USD million	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)
Bond exchange	-2.144	-2.331*	-2.026+	-2.144+	-2.083+
	(1.902)	(1.153)	(1.102)	(1.222)	(1.205)
International sukuk	-0.989	-0.993	-0.974	-0.989	-0.835

	(1.215)	(0.930)	(0.884)	(1.050)	(1.046)
Investment-grade	1.053	0.937	1.057	1.053	1.094
	(1.273)	(1.072)	(1.110)	(1.063)	(1.068)
Multiple structures	0.895	0.312	0.676	0.895	0.672
	(1.358)	(0.931)	(0.919)	(1.035)	(1.006)
Count of sukuk produced by same arranger	-0.008	-0.011*	-0.011*	-0.008+	-0.009*
	(0.008)	(0.004)	(0.004)	(0.004)	(0.005)
Floating	-0.085	-0.070	-0.080	-0.085	-0.084
	(0.137)	(0.122)	(0.121)	(0.122)	(0.122)
Frequency	2.716***	2.911***	2.881***	2.716***	2.700***
	(0.695)	(0.357)	(0.362)	(0.365)	(0.365)
Inverse Mills Ratio	0.899	1.347+	1.369+	0.899	0.877
	(1.016)	(0.690)	(0.703)	(0.713)	(0.714)
Constant	50.858	38.326	30.729	50.858	53.778
	(63.095)	(33.444)	(32.869)	(37.014)	(37.477)
Issuer and Arranger, Month and Year F.E.	Y	Y	Y	Y	Y
Observations	1,092	1,092	1,092	1,092	1,092
R-squared	0.771	0.769	0.770	0.771	0.771

Robust standard errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Figure 1. Distribution of *Count of Sheikhs* for Sukuk with Scholar Endorsement

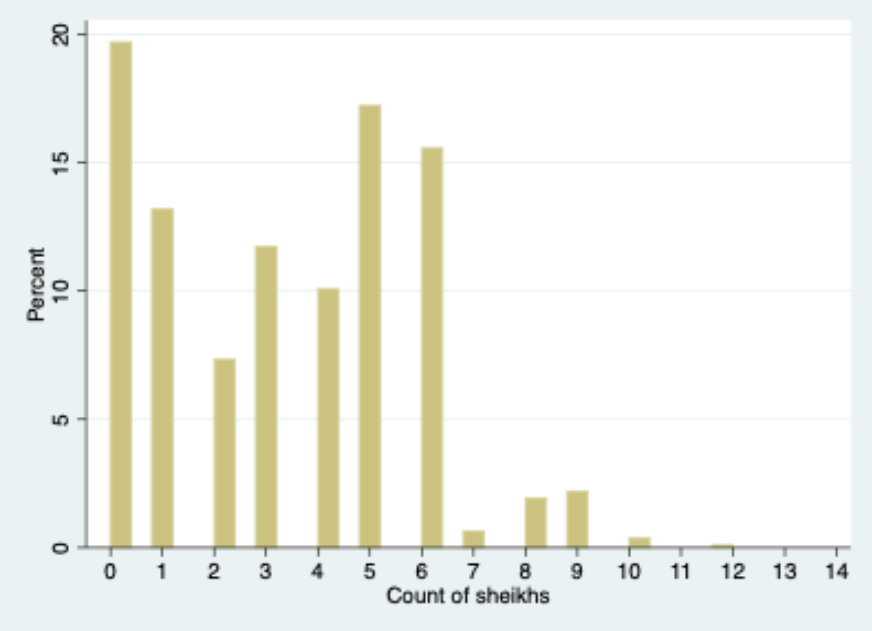


Figure 2. Distribution of *Shariah* Compliance Scores

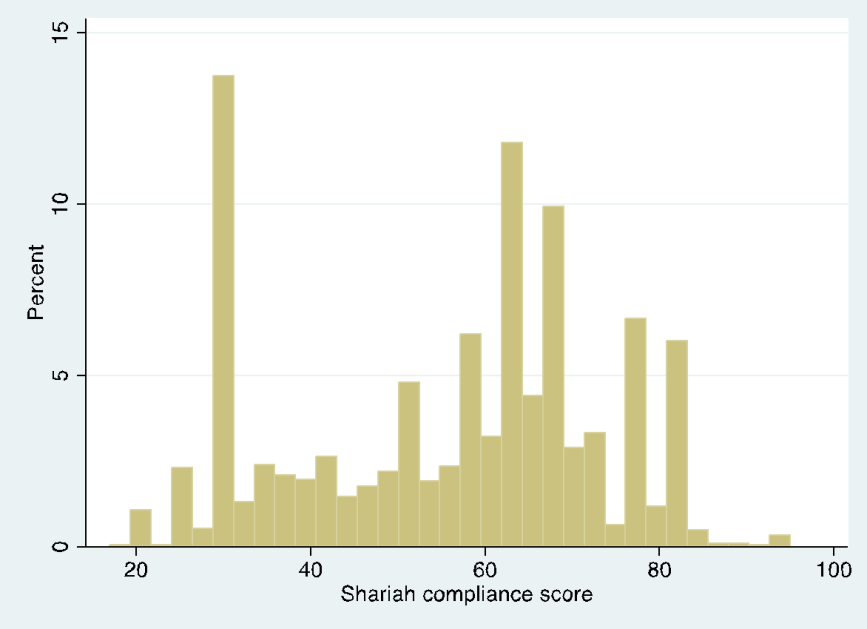
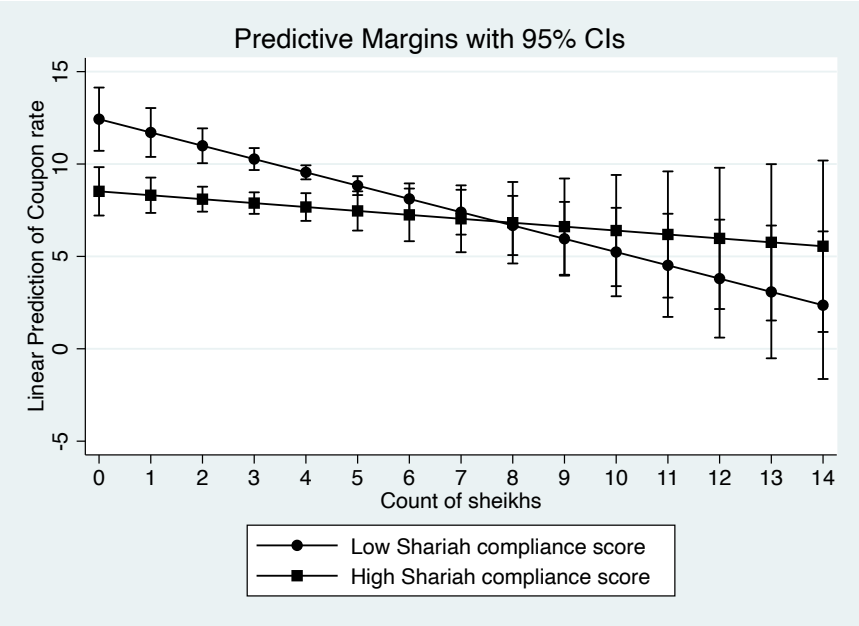


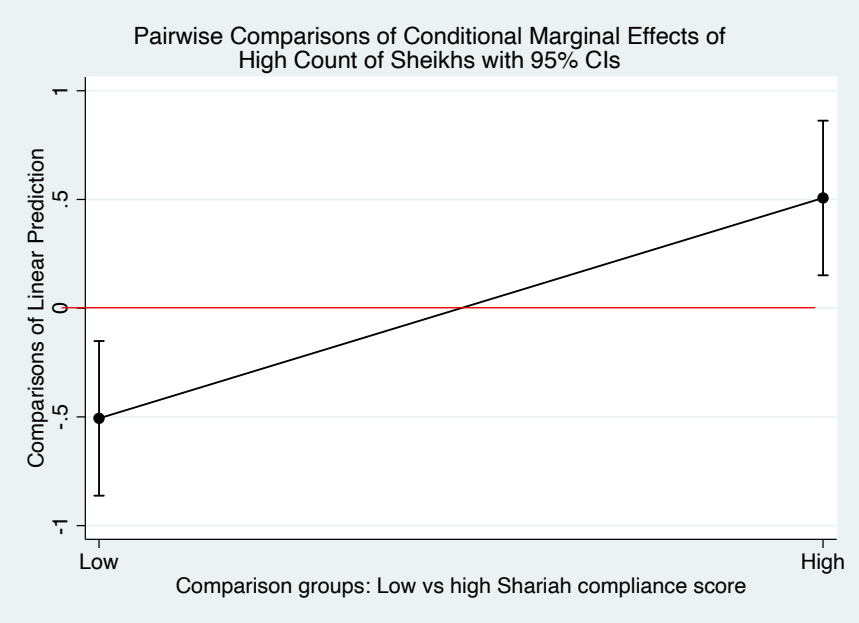
Figure 3. Interaction between Count of Sheikhs and *Shariah* Compliance Score on Coupon Rate[7]

Panel A



Panel B

[7] Note that for linear regression models like the OLS used to generate Figure 3, the confidence intervals in the figure indicate whether each estimate is significantly different from zero, and not whether the interaction effect is statistically meaningful (which can be inferred directly from the interaction coefficient (Ai & Norton, 2003)).
In our graphing, control variables are set at the mean values. We have removed the mean values of the issuer and arranger fixed effects in graphing. Including these fixed effects at the mean led the linear prediction of the coupon rate to be below 0 for the highest *Shariah compliance score* and *Count of sheikhs* values, but coupon rate values do not go below 0.



Appendix Table 1. First Step Model in Heckman Procedure[8]

VARIABLES	Model 1 First step
Original issue amount in USD million	0.005**
	(0.002)
Bond exchange	1.131**
	(0.431)
International sukuk	23.024***
	(2.057)
Investment-grade	2.474***
	(0.646)
Multiple structures	2.565***
	(0.573)
Count of sukuk produced by same arranger	0.017***
	(0.003)
Conventional issuer	1.286*
	(0.560)
Conventional arranger	-0.798***
	(0.220)
Sukuk regulations in country	33.611***
	(2.225)

[8] We excluded variables *Low complexity: Ijara* and *High opacity: Assets not defined or disclosed* and issuer and arranger fixed effects due to high multicollinearity in the logit regression, resulting in the omission of many observations. We include year, country, and sukuk structure fixed effects instead.

Shariah governance framework in country	-14.697***
	(1.375)
Constant	-23.162
	(0.000)
Year, Country, and Sukuk Structure F.E.	Y
Observations	1,462

Robust standard errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Appendix Table 2. OLS Regression Predicting *Sukuk* Coupon Rates with Instrumental Variables

VARIABLES	Model 1 Instrumental Variables
Sukuk regulations in country	-0.478
	(0.480)
Shariah governance framework in country	0.477
	(0.787)
Average *Shariah* compliance score of scholars	0.132***
	(0.039)
Average count of the same issuer and *Shariah* scholars together	-0.021**
	(0.008)
Average count of the same arranger and *Shariah* scholars together	-0.009
	(0.017)
Count of *Shariah* scholars	-0.009***
	(0.002)
Low complexity: Ijara	-0.534+
	(0.277)
High opacity: Assets not defined or disclosed	0.068
	(0.186)
Original issue amount in USD million	-0.000

	(0.000)
Bond exchange	-1.795+
	(1.045)
International sukuk	-0.917
	(0.728)
Investment-grade	0.092
	(1.020)
Multiple structures	0.276
	(0.392)
Count of sukuk produced by same arranger	-0.004
	(0.004)
Floating	-0.008
	(0.093)
Frequency	3.029***
	(0.321)
Constant	4.215**
	(1.446)
Issuer and Arranger, Month and Year F.E.	Y
Observations	1,540
R-squared	0.725

Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1