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COMPARATIVE ANALYSIS OF CONTRACT TERMINATION UNDER ISLAMIC LAW AND SAUDI ARABIA LAW: TOWARDS OPERATIONAL EFFICIENCY

Yusuff Jelili Amuda^{1*}, Sarah Waleed Alfayez², Hussein Shhada Alhussein³

¹Prince Sultan University, Saudi Arabia. yusuffja@psu.edu.sa, <https://orcid.org/0000-0003-2150-2539>

²Prince Sultan University, Saudi Arabia, <https://orcid.org/0009-0006-3643-2165>

³Prince Sultan University, Saudi Arabia. halhussein@psu.edu.sa, <https://orcid.org/0009-0000-7730-1539>

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Corresponding Author: Yusuff Jelili Amuda
(yusuffja@psu.edu.sa)

ABSTRACT

Contract termination is a critical aspect of contract law, governing the conditions and consequences under which parties may lawfully exit contractual obligations. This study presents a comparative analysis of contract termination under Islamic law and Saudi Arabian law, with particular emphasis on their theoretical foundations, legal principles, and practical applications. The problem addressed is the lack of clarity and harmonization between traditional Islamic jurisprudence and the codified legal framework of Saudi Arabia, which often blends Shariah principles with modern statutory regulations. The objective of this research is to examine the points of convergence and divergence between classical Islamic legal doctrines and the Saudi legal system concerning contract termination, including conditions, types, and remedies. A qualitative content analysis method was employed, reviewing classical fiqh texts, judicial decisions, and statutory provisions from Saudi Arabia's legal system. The findings show that while Islamic law emphasizes mutual consent, impossibility (ʿudhr), and breach (khilāf al-shart) as grounds for termination, Saudi law incorporates these along with codified procedures under its Civil Transactions Law. The novelty of this study lies in its dual-lens approach that systematically bridges Shariah jurisprudence and codified statutory systems to enhance commercial predictability and legal coherence in modern Islamic governance. Its uniqueness is further demonstrated through the contextualization of legal practice in a modern Islamic state with a codified legal system influenced by Shariah. The study concludes that while Saudi law aligns with Islamic principles in many respects, practical implementation sometimes diverges due to legal modernization. Recommendations include developing unified guidelines that reconcile classical jurisprudence with statutory norms to enhance legal certainty and consistency in contract enforcement and termination.

KEYWORDS: Contract Termination, Islamic Law, Saudi Arabian Law, Shariah, Comparative Legal Analysis.

1. INTRODUCTION

Contract termination plays a fundamental role in commercial and civil transactions by regulating how agreements can be lawfully dissolved when one or both parties are unable or unwilling to fulfill their contractual obligations. In legal systems governed by Shariah, including Islamic law and the legal framework of Saudi Arabia, contract termination is guided by a blend of moral, religious, and legal principles. Islamic law emphasizes fairness, mutual consent, prevention of harm (*darar*), and fulfillment of obligations (*wafa' bi al-'uqud*), while Saudi Arabia's legal system applies both Shariah-based principles and codified laws especially under its recently enacted Civil Transactions Law (2023). As the Saudi legal framework continues to modernize, understanding how contract termination is operationalized both theoretically and in practice becomes essential for legal harmonization, dispute resolution, and economic efficiency. This study seeks to comparatively analyze the doctrinal and procedural approaches to contract termination under Islamic law and Saudi Arabian law, highlighting how these legal systems influence contract enforcement, predictability, and operational efficiency in both domestic and cross-border contexts.

Saudi Arabia's ongoing legal reforms, part of its Vision 2030 initiative, reflect an ambition to modernize its legal infrastructure while maintaining its Islamic heritage. One area undergoing transformation is contract law, where balancing classical Shariah principles with contemporary business realities remains a challenge. Despite the growing body of research on Islamic commercial jurisprudence, limited scholarly attention has been paid to how Islamic law and Saudi statutory law practically align or diverge on issues such as contract termination. Furthermore, contract termination can significantly impact the efficiency of commercial operations, dispute resolution, and investor confidence especially in jurisdictions like Saudi Arabia that attract international business under Islamic legal norms. This motivates a closer examination of the legal, procedural, and operational implications of contract termination across the two frameworks.

Existing literature on contract law in Islamic jurisprudence tends to focus on general contractual principles such as formation, validity, and obligations (Kamali, 2000; Nyazee, 2002), with limited focus on termination mechanisms. Meanwhile, studies on Saudi Arabian contract law (Alhajeri, 2019; Aljohani, 2022) often analyze legal reforms or specific contractual provisions without a

detailed comparative framework grounded in classical Islamic jurisprudence. Furthermore, few works critically explore how the application of termination principles affects operational efficiency such as dispute resolution speed, legal predictability, and commercial certainty.

This study fills the gap by providing a comparative doctrinal analysis of contract termination under classical Islamic law and Saudi Arabian codified law; examining how these laws are operationalized in practice, especially in terms of business and legal efficiency and offering actionable recommendations for harmonizing Shariah principles with statutory developments to enhance legal clarity and economic functionality. By bridging the divide between tradition and legal modernity, this research contributes to a deeper understanding of Islamic legal implementation in contemporary governance and its practical impact on contractual operations.

2. LITERATURE REVIEW

2.1. Theoretical Framework

The theoretical framework of this study is grounded in a comparative legal theory approach that bridges Islamic jurisprudence (*Fiqh al-Mu'āmalāt*) with legal modernization theory, particularly as it applies to the Saudi Arabian context. The study is designed to explore how the doctrinal principles of Islamic law regarding contract termination are interpreted, adapted, and codified in Saudi Arabia's legal system, with an emphasis on improving operational efficiency in commercial and civil transactions (Vogel, 2000; Al-Dabbagh, 2021).

Fiqh al-Mu'āmalāt (Islamic Jurisprudence of Transactions) is the foundational body of Islamic commercial law which offers the normative and ethical basis for contract formation, execution, and termination. Central to this are: Freedom of contract (*hurriyyat al-ta'āqud*); Permissibility (*ibāḥah*) unless prohibited; Mutual consent (*tarāḍī*) and Justice and prevention of harm (*lā ḍarar wa lā ḍirār*) Termination under Islamic law is typically governed by classical doctrines such as: *Ikhḷāl al-'Aqd* (breach of contract), *'Udhr* (excuse or force majeure), *Faskh* (annulment) and *Iqālah* (mutual revocation) (Al-Zuhayli, 2003). These are not codified universally but interpreted by various schools (*madhāhib*), creating a pluralistic and often ambiguous operational environment (Schacht, 1964; Peters, 2005).

Furthermore, Legal Modernization Theory is another theory that posits that legal systems evolve by adapting traditional norms into codified statutes to serve the modern state's need for uniformity,

efficiency, and legal certainty (Trubek & Galanter, 1974). Saudi Arabia, while rooted in Islamic law, has increasingly pursued legal codification, most notably with the Civil Transactions Law (2023), to modernize and standardize contract rules, including termination (Almuqrin, 2023; Al-Qaralleh & Al-Ani, 2024). Legal modernization emphasizes: Predictability and legal certainty, institutional efficiency and harmonization of traditional and contemporary norms (Otto, 2001; Amanat, 2022). Saudi Arabia’s hybrid legal system combining Islamic jurisprudence with codified law provides a model of legal adaptation under modernization pressures (Nyazee, 2000b; Hallaq, 2004).

Moreover, Operational Efficiency Theory in Legal Systems which refers to the extent to which legal processes support: Speedy resolution of disputes, reduced ambiguity in contract enforcement and alignment with commercial needs. The framework

adopts principles from law and economics, particularly transaction cost theory with high uncertainty and ambiguity in termination rules increase operational costs and efficiency of legal rules with legal rules should reduce enforcement costs and enhance predictability (Williamson, 1981; Posner, 1998; Al-Mutairi & Khan, 2022).

Therefore, this study integrates Fiqh-based normative principles with legal modernization theory to assess how Saudi Arabia's recent reforms affect contract termination's operational efficiency. The framework evaluates: how Islamic doctrines are preserved or modified in statutory reforms, the balance between Shariah compliance and commercial functionality and the efficacy of current legal structures in reducing transactional friction and dispute resolution time. Table 1 shows dimension, Islamic Law perspectives, Saudi Law perspective and Operational implication.

Table 1: Dimension, Islamic Law Perspectives, Saudi Law Perspective and Operational Implication.

Dimension	Islamic Law Perspective	Saudi Law (Statutory) Perspective	Operational Implications
Legal Basis	Fiqh (Qur'an, Sunnah, Ijma', Qiyas)	Civil Transactions Law, Court Practice	Legal dualism and complexity
Termination Grounds	Breach, force majeure, mutual consent	Codified in statutory language	Streamlining vs. interpretative variety
Legal Certainty	Dependent on juristic school	Greater predictability post-codification	Enhanced certainty and enforceability
Dispute Resolution	Judge-based Ijtihad	Increased codified guidance	Faster, consistent rulings
Efficiency Goals	Moral-ethical compliance	Functional-administrative clarity	Integration improves system functionality

Source: Al-Dabbagh, 2021; Al-Suwaidi, 2022; Almuqrin, 2023; Al-Qaralleh, & Al-Ani, 2024

2.1. Contract Termination as a Legal Mechanism

Contract termination is a crucial legal mechanism that allows parties to exit binding agreements under justifiable conditions. In Islamic jurisprudence, the termination of contracts is governed by principles that prioritize justice, prevention of harm, and mutual consent, while Saudi Arabian law deeply rooted in Islamic legal tradition has begun incorporating codified statutes, particularly with the introduction of the Civil Transactions Law (2023). This literature review presents a critical evaluation of existing studies on contract termination under Islamic law and Saudi legal frameworks, identifying areas of convergence, divergence, and implications for operational efficiency.

Classical Islamic jurisprudence (fiqh) provides an elaborate framework for contract formation, execution, and termination. The four major Sunni schools Hanafi, Maliki, Shafi'i, and Hanbali have well-defined positions on valid reasons for terminating contracts. Key modes of termination include: Mutual consent (iqala) – where both parties

agree to cancel the contract, Unilateral termination due to breach or harm ('udhr or darar) justified by public interest (maslahah) or hardship and termination for non-performance (ta'azzur al-tanfidh)-when performance becomes impossible or excessively burdensome.

Researchers like Kamali (2000), Nyazee (2002b), and Vogel & Hayes (1998) emphasize the ethical and equitable underpinnings of Islamic contract termination. These principles aim to prevent exploitation and ensure that termination is not arbitrary but grounded in Shariah-based reasoning. However, Islamic jurisprudence is not codified uniformly, and its application often depends on the discretion of judges (qadis) and the dominant school of thought in a given jurisdiction. This creates interpretational diversity, especially in complex commercial cases involving performance failure or breach (Hassan, 2020, Hassan, 2019).

Furthermore, Saudi Arabia’s legal system is unique in its integration of Shariah principles with codified laws. Until recently, the Saudi judiciary relied predominantly on Hanbali jurisprudence and

royal decrees. The enactment of the Civil Transactions Law in 2023 marks a significant shift toward legal codification and clarity.

Several key developments in Saudi contract law include: Incorporation of termination clauses (*shurut al-faskh*) in commercial contracts; recognition of force majeure and impossibility as valid grounds for termination and establishment of formal procedures and dispute resolution mechanisms through specialized commercial courts. Alhajeri (2019) and Aljohani (2022) note that while Saudi law is becoming more predictable and business-friendly, the discretionary role of judges still bound by Islamic principles can lead to inconsistent rulings, especially in cases without explicit statutory guidance. The Civil Transactions Law attempts to codify areas of ambiguity, including termination clauses, damages, and liability. This legal reform aligns with Saudi Arabia's Vision 2030, which seeks to modernize the legal system to attract foreign investment and improve operational efficiency.

Standardized rules on contract termination clauses and breach are reducing ambiguity. Dispute Resolution shows specialized commercial courts and clearer procedures have led to faster resolution in many instances, though delays still occur in Shariah-sensitive cases. Business Confidence shows the codified approach enhances investor confidence, contributing to a more business-friendly environment. For greater operational efficiency, there is a pressing need to harmonize interpretations of Islamic principles across courts, train judges and legal practitioners in both classical *fiqh* and contemporary contract law and develop model contracts that incorporate clear termination clauses in line with Shariah and modern statutory expectations.

2.3. Comparative Approaches: Convergence and Divergence

Comparative legal analyses, such as those by El-Gamal (2006), Hegazy (2012), and Abdul-Razzaq (2020), highlight areas of both convergence and divergence between Islamic law and modern national legal systems. For instance, on one hand, regarding convergence, both systems uphold core Shariah values such as the sanctity of contracts (*'aqd*) and the avoidance of harm (*la darar wa la dirar*). In addition, mutual consent, impossibility, and breach are recognized termination grounds in both Islamic and Saudi law while the growing use of standardized contracts and arbitration is creating greater legal predictability.

On the other hand, regarding divergence, Islamic

jurisprudence lacks codification and relies on scholarly interpretation, while Saudi law is moving toward statutory clarity; Saudi legal practice may incorporate modern doctrines such as frustration and force majeure more explicitly than traditional *fiqh* and Islamic law emphasizes equity and intention, whereas Saudi law is increasingly outcome-oriented, emphasizing procedural fairness and enforceability. Operational efficiency in contract law is paramount which refers to the ability of legal systems to provide clarity, speed, and fairness in the execution and termination of contracts. Literature on legal efficiency (e.g., Posner, 2003) suggests that predictability and reduced transaction costs are central to economic development. Saudi Arabia's modernization efforts aim to enhance operational efficiency by: Codifying vague legal provisions under Islamic law to reduce ambiguity; developing specialized commercial courts to handle contractual disputes swiftly and adopting digital legal services and standardized contracts, reducing litigation time and cost. However, studies (Hegazy, 2012; Karasik et al., 2006) also warn that full efficiency cannot be achieved without addressing ideological tensions between conservative interpretations of Islamic law and the needs of a globalized, investor-driven economy.

Despite the growing literature on Islamic commercial law and Saudi legal reform, several gaps remain. For example, few studies conduct an in-depth comparative analysis of contract termination doctrines between Islamic law and the Saudi legal framework. The practical implications of contract termination for business efficiency remain underexplored, especially in cross-border or foreign investment contexts. Most works either address Islamic law from a theoretical standpoint or analyze Saudi reforms without anchoring them in Shariah principles. In a nutshell, the literature reveals a dynamic but underexplored intersection between Islamic legal tradition and statutory legal modernization in Saudi Arabia. While both systems acknowledge termination on equitable and practical grounds, differences in interpretation, procedure, and application create legal uncertainty that can undermine operational efficiency. This review affirms the need for further empirical and doctrinal research to harmonize the two systems, enhance predictability, and support Saudi Arabia's economic transformation goals.

3. MATERIALS AND METHOD

This study adopts a qualitative content analysis (QCA) approach to systematically examine the

principles, provisions, and practices surrounding contract termination under Islamic and Saudi Arabian law. QCA is adopted over doctrinal legal analysis because it allows for an interpretive, cross-textual, and contextual comparison of normative legal principles and applied judicial practices, capturing the dynamic interaction between Shariah jurisprudence and codified statutory frameworks beyond mere textual exegesis. This study utilizes a range of primary and secondary sources to conduct a comprehensive analysis of contract termination under Islamic law and Saudi Arabian law. The materials include: Classical Islamic jurisprudential texts (fiqh) from the four major Sunni schools (Hanafi, Maliki, Shafi'i, and Hanbali), with emphasis on Hanbali school as it informs most Saudi legal interpretations. The Civil Transactions Law of Saudi Arabia (2023), particularly provisions related to contract enforcement and termination. Judicial rulings and precedents from Saudi commercial and Shariah courts. The secondary Sources include: Peer-reviewed journal articles on Islamic contract law and Saudi legal reforms; Books and academic commentaries on Islamic commercial jurisprudence; Reports and legal commentaries from institutions such as the Islamic Development Bank (IDB), International Islamic Fiqh Academy (IIFA), and Saudi Ministry of Justice and Case studies and comparative law reviews that assess termination practices in Islamic and Saudi legal systems. In addition, Legal Reform Documents include: Official government publications, white papers, and Vision 2030 policy statements addressing legal modernization in Saudi Arabia. Codification and legal harmonization proposals related to Shariah-based commercial laws. Key themes and legal concepts are extracted and coded, including: grounds for termination, procedural requirements, remedies and compensation, judicial discretion, and operational outcomes (e.g., predictability, enforcement speed). Thematic coding is guided by categories such as: (1) Shariah-based principles, (2) codified legal norms, (3) judicial interpretation, and (4) operational implications. The content from Islamic jurisprudence and Saudi statutory law is compared based on convergence (shared principles) and divergence (differences in legal logic, application, or interpretation). Special focus is given to how each system affects operational efficiency, defined in terms of clarity, enforceability, dispute resolution speed, and economic predictability. The analysis is synthesized to evaluate how contract termination principles in both systems affect business operations, legal certainty, and compliance

practices. Gaps, inconsistencies, and reform needs are identified to formulate practical recommendations. This methodological approach ensures a rigorous and nuanced understanding of the legal and operational dynamics of contract termination in Islamic and Saudi Arabian contexts, contributing to ongoing discussions on legal harmonization and economic modernization.

4. RESULTS AND DISCUSSION OF FINDINGS

This section presents the overall results and discussion of findings.

4.1. Islamic Law and Saudi Arabian Statutory Law

The extant literature demonstrates that both Islamic law and Saudi Arabian statutory law recognize several common grounds for contract termination, including mutual consent (iqāla), breach of contract (kḥilāf al-sharṭ), impossibility of performance (ta'azzur al-tanfīdh), and harm or undue hardship (ḍarar). These bases are rooted in fundamental Islamic legal maxims such as al-wafā' bi al-'uqūd (fulfillment of contracts), lā ḍarar wa lā ḍirār (no harm and no reciprocating harm), and al-'aḍd sharī'at al-mu'āqidīn (the contract is the law between the parties) (Kamali, 2008; El-Gamal, 2006). These principles form the moral and legal foundation upon which contract enforcement and termination are built in Islamic jurisprudence.

The Civil Transactions Law of 2023 in Saudi Arabia marks a significant evolution in the country's legal infrastructure by codifying contract law, including the causes, procedures, and remedies related to contract termination. As Vogel (2000) notes, Saudi Arabia's legal system traditionally relied heavily on judicial discretion within the Hanbali school; however, statutory codification offers greater legal certainty and operational clarity. Unlike classical Islamic jurisprudence where judges (qāḍī) exercise discretion based on context and ethical reasoning the new framework formalizes contractual relationships through statutory guidelines and written clauses, aligning more closely with international commercial standards (Alhomaid, 2024).

Despite the formal codification, there remains a high degree of convergence between Islamic law and statutory Saudi law on valid grounds for contract termination. For instance, mutual consent (tarāḍī) is a recognized ground under both systems: in Islamic law, the concept of iqāla allows parties to rescind a contract by mutual agreement (Nyazee, 2000a), while Saudi statutory law formalizes this through

documented legal procedures. Similarly, in cases of breach of contract (*khilāf al-shart*), both systems permit termination by the injured party. As observed by Al-Suwailem (2012), Islamic law treats the contract as binding unless a party fails to meet obligations, in which case *fasakh* (revocation) becomes permissible. The 2023 Civil Transactions Law mirrors this with clear provisions for non-performance and associated remedies.

The notion of impossibility of performance (*istiḥāla* or *ta'azzur*) is also consistently acknowledged. In Islamic jurisprudence, impossibility resulting from force majeure (e.g., destruction of the contract's subject matter) legitimizes termination (Kamali, 2008). Saudi statutory law similarly provides for termination under *quwwat qāhira* (force majeure) or *zurūf ṭāri'a* (unexpected circumstances), especially under the Commercial Courts Law (Al-Zahrani, 2023). Fraud or misrepresentation (*gharār* or *tadlīs*) is another critical area of overlap: classical jurists such as Ibn Qudāmah regarded contracts involving deception as voidable, a position echoed in modern Saudi law which allows annulment for concealment of material facts (Sait & Lim, 2006).

Coercion or duress (*ikrāh*) similarly invalidates contracts under both systems. Islamic legal theorists from Al-Māwardī to contemporary scholars emphasize free will in contractual obligations (Hallaq, 2009), and Saudi law adopts this standard in disallowing contracts entered under threat or compulsion. Moreover, illegality especially contracts involving *ḥarām* goods or purposes like gambling or alcohol renders a contract void in Islamic law (Kamali, 2008), and this principle is strictly upheld in Saudi statutory law, which prohibits non-Shariah-compliant transactions. Another shared doctrine is defect in subject matter (*'ayb*), where hidden defects permit annulment. This is well-established in Islamic law under *khiyār al-'ayb*, a buyer's right to rescind due to undisclosed faults (El-Gamal, 2006). The Civil Transactions Law allows for similar remedies, demonstrating harmonization between Islamic legal heritage and codified contract law.

However, judicial discretion remains significant in Saudi practice, especially in interpreting ambiguous clauses or assessing intent (*niyyah*) and hardship. Despite codification, judges often fall back on Hanbali jurisprudence where statutes are silent, reaffirming the role of Islamic ethics in commercial adjudication (Vogel, 2000; Al-Harran, 1995). This duality between codification and interpretive discretion presents both strengths and challenges. On one hand, statutory codification improves

operational efficiency by enhancing legal clarity and predictability, especially for foreign investors (Alhomaid, 2024). On the other hand, variability in interpretation, particularly regarding force majeure, fraud, and breach, contributes to judicial inconsistency and may hinder seamless integration with international legal systems.

The comparative analysis thus identifies a conceptual and procedural overlap between Islamic legal theory and Saudi legal practice. While Islamic law emphasizes case-by-case adjudication, ethical discretion, and contextual justice, Saudi Arabia is increasingly adopting a rule-based, codified approach to enhance legal certainty and attract global investment (Sait & Lim, 2006). Nonetheless, the persistent fragmentation in interpretive approaches and the dual reliance on Shariah and statutory law highlight a continuing transitional phase in the evolution of Saudi Arabia's commercial legal system.

4.2. Transformation Codifying Legal System in Saudi Arabia

Saudi Arabia is undergoing a significant transformation of its legal system by codifying key laws and adopting a rules-based legal framework. This process involves articulating clear, specific, and accessible legal texts and procedures, aiming to create a more transparent, predictable, and internationally compatible legal environment. The reforms are designed to bolster investor confidence, facilitate global trade, and support the Kingdom's broader economic diversification agenda as outlined in Vision 2030 (Kingdom of Saudi Arabia, 2016).

Historically, Saudi Arabia's legal system was grounded in uncodified Islamic (Sharia) law, predominantly following the Hanbali school of jurisprudence. Judges (*qāḍis*) exercised significant discretion, often relying on personal reasoning (*ijtihād*) and classical legal sources. While deeply rooted in Islamic tradition, this system was frequently perceived by international investors as opaque, unpredictable, and difficult to navigate particularly in the realm of commercial and contractual disputes (Vogel, 2000; Al-Dabbagh, 2019).

In recent years, Saudi Arabia has embarked on a systematic process of codifying various areas of law, including: Commercial Law, Contract Law, Companies Law, Bankruptcy Law, Labor Law and Civil Procedure and Evidence Law. Codification, in this context, means that legal rules are written, organized, and published in accessible formats, thereby reducing legal ambiguity and limiting the scope for discretionary interpretation by judges. This

transition toward codified law has several implications for the investment climate. According to OECD (2021), legal certainty and the rule of law are fundamental determinants of Foreign Direct Investment (FDI). Investors seek assurance that contracts will be enforced, that dispute resolution will be impartial and timely, and that regulatory changes will not be arbitrary. Codified legal systems provide this predictability and are thus more attractive to foreign investors. Moreover, codification aligns Saudi Arabia's legal system with international legal norms, enhancing its position in global indices such as the World Bank's Doing Business Report and improving its compatibility with World Trade Organization (WTO) frameworks. For example, the New Companies Law (2022) simplifies business formation, reduces bureaucratic hurdles, and introduces flexible corporate structures in line with global best practices. Similarly, the Bankruptcy Law (2018) introduces modern insolvency procedures that support both creditor rights and corporate restructuring (Al-Suwaylim & Al-Jarbou, 2022).

4.3. Institutional Reforms and Judicial Modernization

These legal reforms are accompanied by broader judicial modernization efforts. The establishment of specialized commercial courts to improve efficiency and sectoral expertise. The introduction of e-litigation systems to digitize court procedures. The enhancement of judicial training and development of standardized legal interpretations. These efforts are spearheaded by the Saudi Ministry of Justice, working in coordination with the Council of Ministers and other regulatory bodies. As noted by UNCTAD (2020), such institutional reforms are key enablers of legal and economic modernization.

Importantly, the codification process has not displaced Islamic principles but rather seeks to harmonize statutory law with the moral and ethical foundations of Sharia. Core principles such as 'adl (justice), ridā (mutual consent), and daf' al-ḍarar (prevention of harm) are embedded in new legal codes, thereby enhancing societal acceptance in a culturally and religiously conservative society. As observed by El-Gamal (2006), while Islamic jurisprudence allows for contextual and moral reasoning, its flexibility can sometimes result in inconsistent judicial outcomes. Codification, by contrast, enhances procedural uniformity but may lack the adaptability of traditional fiqh in complex or novel cases. Hence, Saudi Arabia's hybrid model retaining the ethical backbone of Sharia while incorporating codified rules seeks to balance

predictability with justice. There is increasing evidence that Saudi Arabia's legal reforms have enhanced operational efficiency and reduced transaction costs for businesses. According to PwC Middle East (2023) and SAGIA (2021), companies operating in Saudi Arabia now experience improved clarity in dispute resolution processes, streamlined licensing procedures, and greater protection of contractual rights. These improvements are crucial for achieving Vision 2030 objectives, which include boosting non-oil revenue, attracting FDI, and positioning Saudi Arabia as a regional hub for commerce and innovation.

4.4. Operational Efficiency in Business

Operational efficiency in business refers to the ability of a company to deliver goods or services with optimal resource utilization, minimal legal delays, and reduced exposure to regulatory or legal uncertainties. Prior to the ongoing legal reforms, Saudi Arabia's reliance on uncodified Sharia law and the extensive discretionary powers of judges resulted in inconsistent court decisions, opaque legal procedures, and unpredictable contract enforcement. For foreign investors unfamiliar with the cultural and legal context, this presented considerable challenges in navigating commercial disputes and regulatory compliance. This environment led to what scholars have termed "institutional friction," where the absence of codified legal norms increased transaction costs and risk exposure for businesses operating in the Kingdom (Vogel, 2000; Al-Suwailem & Al-Jarbou, 2022). Time-consuming procedures, legal ambiguity, and inconsistent rulings undermined investor confidence and deterred long-term capital investment. In line with Vision 2030, Saudi Arabia has introduced far-reaching legal reforms aimed at modernizing its legal infrastructure and improving operational efficiency.

Furthermore, Codified Commercial Laws relates to the enactment of laws such as the Companies Law (2022), Bankruptcy Law (2018), and Commercial Transactions Law (2023) provides clear definitions of business rights, obligations, and procedures. According to Al-Dabbagh (2019), codification reduces discretionary legal interpretation and strengthens the enforceability of contracts, thereby improving institutional reliability. Specialized Commercial Courts: The establishment of dedicated commercial courts has streamlined dispute resolution processes by applying uniform legal standards. As reported by the Saudi Ministry of Justice (2023), these courts have significantly reduced case resolution times and improved the quality of

judicial decisions. Contract Enforcement Mechanisms where Revisions to arbitration laws and the establishment of enforcement courts have enhanced legal certainty. Saudi Arabia's accession to the New York Convention and adoption of the Arbitration Law (2012) align its dispute resolution mechanisms with international standards, making it easier for foreign entities to resolve contractual disagreements (UNCTAD, 2020).

Digitalization of Legal Processes such as E-litigation systems, digital contract registration, and online case management portals have streamlined legal procedures. A report by PwC Middle East (2023) notes that these digital tools have significantly reduced administrative burdens and litigation costs, thereby improving the ease of doing business. These reforms have produced measurable improvements in operational efficiency for both domestic and foreign enterprises. Businesses now benefit from enhanced legal predictability, faster dispute resolution, reduced compliance costs, and a stronger foundation for strategic planning. This legal modernization enables firms to focus on core operations and long-term growth rather than navigating legal uncertainties. Foreign investors, in particular, have responded positively to the reforms. They now operate under clearer guidelines for business registration, ownership rights, and contract enforcement. The increased protection offered by international arbitration standards and greater transparency in licensing and regulatory processes have further enhanced Saudi Arabia's investment climate. As the World Bank's Doing Business reports (before their discontinuation in 2021) highlighted, Saudi Arabia made substantial progress in contract enforcement, scoring improvements in judicial efficiency and legal infrastructure (World Bank, 2020). Empirical data supports these developments. The Ministry of Investment of Saudi Arabia reported a consistent rise in foreign investment licenses in recent years, while international law firms and multinational corporations have expanded their presence in the Kingdom, citing improvements in the legal framework as a key factor (SAGIA, 2021; OECD, 2021).

In a nutshell, Saudi Arabia's legal reforms have significantly boosted operational efficiency by transitioning to a more transparent, codified, and predictable legal system. This transformation is particularly crucial for attracting foreign direct investment (FDI) and supporting the Kingdom's broader economic diversification agenda. By reducing legal uncertainty and enhancing investor protection, these reforms align with global best

practices and serve as a cornerstone for sustainable, non-oil economic growth.

4.5. Strategies for Improving Saudi Arabia's Legal and Commercial Systems

Harmonizing Interpretations of Islamic Principles Across Courts. It is emphasized that Islamic law (Shariah) in Saudi Arabia is derived from multiple primary and secondary sources including the Qur'an, Sunnah, *ijma'* (consensus), and *qiyas* (analogy). However, judges in the kingdom may adhere to different schools of jurisprudence (*madhāhib*), such as Hanbali the officially recognized school in Saudi Arabia or may be influenced by other traditions like Maliki or Shafi'i. This diversity often leads to inconsistencies in legal judgments on similar matters, especially in commercial disputes (Vogel, 2000). Jurisprudential variation reduces legal predictability and may create confusion for both domestic businesses and foreign investors. To address this challenge, there is a growing consensus on the need for centralized legal interpretations or guiding precedents, particularly in commercial law. A unified judicial reference framework that aligns Islamic jurisprudence with codified national legal standards should be institutionalized. For example, drawing from Malaysia's experience with its Shariah Advisory Council (SAC) under Bank Negara Malaysia, Saudi Arabia could issue authoritative interpretations through a centralized Supreme Judicial Council. Additionally, legal manuals, case digests, and structured judicial training can help standardize interpretations across courts (El-Gamal, 2006).

Many Saudi judges have in-depth training in classical Islamic jurisprudence (*fiqh*), particularly in the Hanbali tradition, but may lack exposure to modern commercial practices, international contract law, or digital economy frameworks. Conversely, some lawyers trained in statutory or civil law systems may not be sufficiently grounded in the theological and legal principles of Shariah. This dual knowledge gap creates inconsistencies in legal reasoning and undermines the enforceability of contracts in complex commercial settings. To address this, interdisciplinary legal education programs should be developed, combining *Usul al-fiqh* (principles of Islamic legal theory), contemporary commercial law, and international legal standards. Al-Suwailem (2006) emphasizes the importance of cross-training between Shariah scholars and legal practitioners, particularly in areas such as Islamic finance, sukuk structuring, digital contracts, and cross-border transactions. Certification programs

and continuing legal education could equip legal professionals to adjudicate or draft in contexts that blend religious and secular legal norms.

Many business contracts in Saudi Arabia, especially those involving SMEs or local partnerships, often lack well-defined termination clauses. This deficiency complicates dispute resolution, especially when attempting to reconcile classical Shariah concepts like *gharar* (excessive uncertainty), *fasakh* (rescission), or *darar* (harm) with statutory obligations such as breach of contract, impossibility, or force majeure. This legal ambiguity is particularly problematic for foreign investors unfamiliar with Shariah jurisprudence (Almadani, 2009).

To mitigate these issues, Saudi Arabia should promote the development of model contracts that harmonize Shariah principles with modern legal standards. These templates should avoid elements such as *riba* (interest) and *gharar*, include enforceable safeguards like arbitration clauses and compensation terms, and provide clearly defined triggers and remedies for contract termination such as breach,

mutual consent (*iqala*), or unforeseen impossibility (*ta'azzur al-tanfidih*). Such best-practice tools can serve as references for courts, legal professionals, and businesses, reducing legal uncertainty while preserving religious compliance (Kamali, 2008, Wejdan, Mohammed, 2023).

To enhance operational efficiency in its legal and commercial systems especially under the economic transformation goals of Vision 2030, Saudi Arabia must adopt a multifaceted approach. First, judicial interpretations of Islamic law should be harmonized to ensure consistent and predictable rulings. Second, legal professionals must be equipped with dual competence in classical Shariah and contemporary legal systems. Third, the widespread use of enforceable, Shariah-compliant model contracts is critical. These reforms will strengthen the rule of law, enhance investor confidence, and foster a more transparent and reliable business environment ultimately supporting Saudi Arabia's global economic integration. Table 2 provides summary of key findings of the study.

Table 2: Summary of Key Findings.

Theme	Islamic Law	Saudi Law (Post-2023)	Operational Implication
Grounds for Termination	Based on ethics and justice	Statutory causes and procedures	Convergent but procedural gap
Role of Judicial Discretion	Central	Present but more constrained	Inconsistency vs. Predictability
Legal Clarity	Case-dependent	Codified and standardized	Improved clarity under Saudi law
Dispute Resolution Speed	Variable	Increasing due to reform	Enhancing but still evolving
Global Business Integration	Limited	Improving	Needs further harmonization

Source: Vogel, 2000; Al-Suwailem (2006; El-Gamal, 2006; Almadani, 2009

5. IMPLICATIONS OF THE STUDY AND POLICY DIRECTIONS

The comparative analysis of contract termination under Islamic law and Saudi Arabian law reveals several significant implications for legal development, commercial practice, judicial efficiency, and international engagement. The divergence between classical Islamic jurisprudence (*fiqh*) and Saudi Arabia's codified legal system, especially under the Civil Transactions Law (2023), presents a dual challenge: preserving Shariah principles while ensuring modern legal clarity. The inconsistency in judicial interpretation due to reliance on varied *fiqh* schools can result in unpredictable contract termination outcomes, undermining legal certainty. Without further harmonization, legal unpredictability may persist, affecting domestic and international confidence in Saudi Arabia's legal environment. Saudi Arabia's codification improves procedural clarity and dispute resolution speed; however, operational efficiency is

still hindered by the limited capacity of legal personnel trained in both Islamic and modern contract law. Complex termination cases often still rely on judicial discretion, causing variations in rulings that may affect business operations and contractual enforcement. There is a pressing need to streamline court procedures and improve judicial training to support efficient, uniform contract enforcement. For international investors and firms operating in Saudi Arabia, the predictability of contract enforcement especially termination rights is crucial. Legal uncertainty due to doctrinal variation or ambiguous statutory provisions may discourage foreign participation in the Saudi market. The current transition phase, while promising, still poses risks to investor confidence unless policy reforms ensure legal transparency and uniform application. The integration of Shariah principles with codified commercial law requires robust, centralized Shariah governance to reduce interpretational divergence. The role of judicial *ijtihad* (independent reasoning) in

determining valid causes for termination must be balanced with clear statutory benchmarks. Thus, inconsistent Shariah interpretations may challenge contract enforceability and deter long-term contractual relations, especially in cross-border trade (Fatma and Imran, 2023).

In order to address these implications and support the modernization and operational efficiency of contract law in Saudi Arabia, the policy directions are essential. Draft standardized guidelines for contract termination procedures grounded in both Shariah and statutory principles is significant. Encourage use of model contracts with predefined termination clauses aligned with the Civil Transactions Law and major fiqh positions. The Ministry of Justice and Saudi Bar Association should jointly publish practical handbooks and legal commentaries to aid legal practitioners and judges. It is paramount to mandate specialized training programmes for judges, arbitrators, and legal practitioners in comparative contract law (Islamic and civil). Similarly, joint legal certification in Shariah and statutory law for commercial court judges should be introduced.

Moreover, there is need to expand the capacity and technical expertise of specialized commercial courts to handle termination-related disputes. Additionally, it is vital to promote digital dispute resolution platforms and case management systems to reduce delays and improve transparency. There is need for establishment of a national Shariah board for commercial law to issue binding interpretations on key doctrinal matters, including contract termination can play. Also, it is important to align court decisions and fatwas through unified, accessible databases. In addition, align Saudi contract termination laws with international commercial standards such as the UNIDROIT Principles and CISG, where consistent with Shariah. In so doing, this should facilitate cross-border legal cooperation to harmonize contractual frameworks and enhance global legal credibility. Bilateral legal harmonization task forces with key trading partners and Islamic finance hubs (e.g., UAE, Malaysia, Turkey) can foster legal frameworks and credibility.

6. CONCLUSION AND RECOMMENDATIONS

The comparative analysis of contract termination laws under Islamic and Saudi legal frameworks presents both opportunities and challenges for legal modernization and operational efficiency. The findings reveal a foundational convergence in ethical

and doctrinal principles—such as mutual consent, prevention of harm, and fulfillment of obligations—deeply rooted in Shariah tradition. However, differences emerge in procedural and interpretive frameworks: while Islamic law maintains a flexible, context-sensitive approach guided by classical jurisprudence, Saudi Arabia's evolving legal system—particularly following the enactment of the Civil Transactions Law (2023)—prioritizes codification, legal certainty, and operational clarity. These reforms seek to enhance the predictability and efficiency of contract enforcement, especially in commercial and international contexts. The novelty of this study lies in its dual-lens approach that bridges Shariah jurisprudence and codified statutory systems to promote commercial predictability, legal coherence, and institutional modernization within a modern Islamic state. By focusing on harmonization, judicial competence, and institutional reform, Saudi Arabia can further strengthen the enforceability and predictability of contracts in both domestic and global arenas. Yet, challenges persist, including fragmented interpretations of Shariah principles, judicial inconsistency, and gaps in institutional capacity. Bridging the gap between Islamic legal theory and modern statutory law remains essential for advancing legal harmonization, boosting investor confidence, and promoting sustainable economic development while preserving the Islamic legal identity of the Saudi legal system. The recommendations are therefore provided as follows

1. Develop a unified legal framework that integrates core Islamic jurisprudential principles with codified termination procedures to reduce interpretive inconsistencies and improve legal predictability.
2. Provide continuous professional development for judges, lawyers, and legal scholars in both Islamic and statutory contract law to ensure consistent and informed application of termination principles.
3. Promote the use of model commercial contracts and termination clauses aligned with both Shariah and Saudi codified law to enhance clarity and reduce litigation.
4. Create a national Shariah board or council specifically for commercial law to issue authoritative interpretations and ensure uniform application across courts.
5. Leverage digital tools, such as smart contracts and AI-powered legal platforms, to automate contract management, monitor compliance, and facilitate swift dispute resolution.

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