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Compound Index of Sharia Governance and Its Impact on Banks Performance

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Abstract

Research background: In Islamic banking systems, Shariah governance is considered a complete provision of conformity to Islamic rules. These rules and ethics are expected to follow by the banks and to make the customers fully satisfied. Its basic objectives is to improve the performance of the organization with welfare to eliminate poverty on the international level.

Purpose of the article: The substantial aim of this study is to analyze the impact of Shariah governance on Islamic banking performance in some selected Islamic banks of Saudi Arabia and elsewhere. Adding to this, to develop an index that is helpful to analyze the performance and impact of the implementation of Shariah rules and regulations.

Methods: It is explained in the paper that with the higher ICG (Islamic Compliances Governance) sources, the board is also able to implement the corporate vote in dependency and the corporate board evaluates the enhancement in the improved performance. The strategic command is used to adopt the development stage and complexity of competition to provide a complete and sound financial system on the international level and provide a competitive edge in the banking sector market.

Findings & value added: Overall, the paper is based on checking the performance of some Islamic banks of Saudi working in Arabia and elsewhere, with the implementation of shariah governance, and how they are implementing their rules and regulations to compute the conventional banking system.

Keywords: Sharia Compound Index, Governance Impact, Banks Performance

Introduction

Islamic banks are among the various banks that perform their activities centered on the profit-and-loss-sharing concept. As such, the principal issues some banking alternative approaches that are relatively beneficial to the public and the government. Moreover, Islamic banks uphold certain features in fairness in transactions, principled investment, endorsing unity values such as togetherness in duty performance and union in production. Furthermore, the banks try to avoid some hypothetical activities evident in financial transactions [1] In this case, Islamic banking offers various products and services through a unique and more special financial scheme. Due to the variety of the bank's services, Islamic banking acts as a credible banking system where customers are delighted with the bank performance to adopt the Islamic rules that are not prohibited in Islam. Islamic banking has positively involved itself in economic growth even after governing several growth determinants such as increasing trust and distribution of zakat etc [2].

The corporate governance framework defines the allocation of rights and obligations among various members in the company, such as boards of directors, managers, shareholders, and other stakeholders, as well as the rules, procedures, and decision-making support on corporate matters. Corporate governance can be a means of aligning the interests of investors and management and ensuring that businesses are managed in the best interests of shareholders. It also aids in attracting lower-cost investment funds by boosting investor interest both domestically and internationally. Good corporate governance means that management and the Board of Directors are held accountable. The Board of directors will also ensure legal compliance and make impartial decisions for the betterment of the business. Another corporate governance obligation is that it is recognized that effective corporate governance will make it more difficult for unethical practices to emerge and take hold, but it will not necessarily eliminate them. Good corporate governance will add value to the development of sound corporate management and the enrichment of corporate entity performance for the benefit of society in general and shareholders in particular. The paper then goes on to explain the research gap at this stage.

Many researchers explored the topic of Islamic banks in general. Examples of which are many and some of whom can easily be found through quick look into Google research. However, this empirical research explores the impacts on banking sector performance after the implementation of Islamic laws such as Shariah compliances. It is helpful to make arguments on these laws and find better results with the present variables. Corporate governance variables provide complete information that is readily available data and it is based on bank scope. However, there are still some missing values and accuracy issues that provide a complete gap for this study, and it prefers to collect the data according to the task structure highlighted earlier in the research gap. With this in mind, we need to answer few questions in this paper such as how sharia compliances impact the performance of Islamic banks? What is the impact of the sharia governance on banks reporting?

The research aims to analyze Sharia governance's compound index and its impact on the bank performance concerning economic and social responsibility to the descriptions. In this case, the application of ISR as an Islamic social responsibility source is heavily outweighed in the paper. The evaluation is carried out through a composite outcome of self-assessment of Islamic Commercial Banks score and Islamic Disclosure Index to maintain the organizations' value of Islamic Bank companies [1]. The study's main question is whether the Islamic Corporate Governance Index can boost the valuation of Islamic banks or whether Islamic social reporting transparency can help a company's value rise [3]. To contextualise this article, we need to clarify some points related to the Background of this research. Good corporate governance skills play a critical role in ensuring that there is enough to improve the strategies of banks and corporate social responsibility. In this regard, Islamic banking evaluated to maintain and put into practice proper governance skills from the Islamic banks' self-assessment teams' results. For instance, Bank Indonesia (BI) Circular Letters are among the various written documents to implement multiple activities in Sharia Commercial Banks and Sharia Business Units. In the BI Circular, the corporate guidance assessment is evaluated through results from the corporate self-assessment unit. In this case, enacting smaller composite value accumulates in leads to better provision of the serves and governance in an Islamic bank [4]. Islamic banks are deemed to produce a better corporate setup in issuing guidance related to various unique features such as the Sharia principles' devotion in acts and the unrestricted investor's accounts holder in the bank [5].

On the other hand, Islamic Social Reporting (ISR) is applied for adequately receiving the full Islamic content about various activities performed. In this situation, ISR signifies the accounting approaches and practices that are held per the Islamic Sharia. As such, the invention of ISR aims to positively contribute to the world economic status and business practices [1]. Since companies are deemed to achieve long-term goals, organizations' image may be improved by attaining efficient quality, social responsibility, and good governance to customers and their environment. As such, the execution of various corporate governance in the Islamic bank plays a crucial role in conserving the Islamic banks' public figures.

Literature review

The main objective of operating companies is to fulfill various gaps and purposes left by other individuals worldwide. Therefore, overseeing the long-term work relationship in a company is another goal of increasing its value status. Moreover, the firm's worth is determined by the price and value of the services that customers are will to be served. On the other hand, Return on Equity (ROE) represents the worth of the company's progress to the customers and the environment at large [6]. ROE is applied to determine the company's development in making profits to the shareholders. Thus, ROE accumulates the value of shareholders in various companies across the globe. In this research, the company's value is considered the firms' image; therefore, it requires skillful individuals to maintain the business's success before the eyes of the shareholders [7]. After the analysis of past researches as overall in the banking system, there are four different sections to explore the further research in specific segments such as; Islamic corporate governance index, Shari'ah board size, Shari'ah and management and, finally, Board and management. Here are the reviews on the aforementioned points.

Islamic corporate governance index

Islamic banks involve corporate governance that is majorly aimed at directing and controlling the company to meet its purposes and objectives. The company's goals and objectives are sustained by safeguarding all the firm's rights and interests. The application of various basic techniques on the decision-making process rooted in Islamic and monotheism has been examined to be a protection of rights [8]. Moreover, corporate governance involves the interrelationship of the firm with other individuals across the world. Islamic banks are heavily focused on ownership sharing, independence in boards, women directors, board proficiency, and the Sharia board's skillfulness. What is more, Islamic corporate aims to a retentive measure of an Islamic city as a whole in the corporation [9]. The approach of retaining the corporation in the Islamic city is a view of maintaining the companies' success. As such, the company's growth effectively improves various states' economic situations as there is an increase in employment, government revenue, and much more [10]. However, corporate governance in Islamic banks seems to be controversial in regards to conventional corporate governance. This is based on the regulation rules, which states that corporate governance in Islamic activities has to be rooted in Islamic Sharia which is confined to the Qur'an and Hadith [11].

On the other hand, Islamic Social Reporting (ISR) is a company social obligation that is heavily determined to announce the organization's progress in society. As such, the corporate is deemed to announce society's holistic expectations concerning the company's role. Moreover, the corporation announces the progress of the community and the social responsibility activities in various regions. Such ISR acts as the firm's panel of social responsibility control within the community and the surrounding, which concerns the Islamic principles. Furthermore, the invention of ISR is based on Sharia principles. As a result, global capitalism and globalization have been identified as influences that tamper with Islamic Banks' and Islamic finance methods' promises to emerge with secularity and secular conceptions of social justice in Islamic teachings [12].

Shari'ah board size

Islamic banking is thought to be the most important aspect, as it provides social justice and a wide range of functions related to the Islamic faith. Islamic banks are expected to follow Islamic principles that are "just and fair" in earnings and it is distributing earnings according to the educations of Islam. Therefore, it makes sure that treat the continuous compliances with the Islamic principles would be helpful to implement with the proper rules and regulations that are authorized by a Central Bank. In Islamic banking, different researches provide efficient to enter in stable conditions of implementing rules and regulations on banking performance that would be helpful to achieve profitability and stability. Wasiuzzaman and Gunasegavan (2013) focused on the impact of Islamic governance and their impact on the performance of the banking system [13]. Shari'ah compliances considered better implementation of Islamic banking, which is referred to; provide a good system based on features of Islamic guidelines. The research produces significant results that are, according to the education of social, economic, and legal resources that follow the religious education. According to the perspective of the difficulty of working in a Central Bank, Many studies have discovered a connection between the performance of central/state banks and the performance of Islamic banks. According to the report, it would improve the productivity of developed countries and lower agency costs, allowing for improved communication and decision-making by banks [1].

According to Kakabadse et al. (2010), elements that reflect the consistency of rules and regulations must be focused on education that generates new facts and figures. Therefore, it is considered that Islamic education put a positive impact on the performance of banking. Furthermore, it is beneficial to boost bank qualifications in order to improve the contribution of higher income to the overall performance of Islamic banking, which is understandable with financial and accounting skills that would be useful to follow the Central Bank's policies and make decisions on each new policy. Khan and Khan (2017) explain that State Bank members are considered to have great knowledge of accounting and finance that would be meaningful to take Shari'ah positively, and they implement profitable measures to increase the knowledge of Accounting and finance. The results of regression analysis also explain that State Bank members have complete knowledge about business and economics. They can implement new policies according to the analysis of current issues [14]. Improving the efficiency of Islamic banking will be beneficial and one way to do so is through communication. Communication, therefore, considered a great hurdle in improving the performance of banks. Consequently, it is preferable to improve the communication Department for every conventional and Islamic bank, so that it will be able to make a significant contribution to the banking sector, and so that monitoring and advising would be beneficial to improving the banking system's efficiency[15].

Shari'ah and management

In Islamic banking, it is founded that Bank State and the performance of Islamic Bank has a positive relationship. As the central Bank provides proper rules and regulations to Islamic Banking compared to conventional banking therefore it would increase the positive relationship between the central Bank and Islamic banking performance. Corporate boards also representative of the board and their independent director that would help mitigate the risk and also considered key regulators who are independent directors to perform the function of management. Independent directors may have some kinds of conflicts of interest in performing their duties and monitoring the work of Islamic banking as they are new in the market[16]. Even the activities of Islamic banks are monitored, but still, maintaining a positive relationship between independent directors and management of Islamic banking. The reason behind this is that they contribute towards improving the performance and provide reasonable governance through Islamic banking.

The Saudi Arabian Monetary Authority (SAMA) recently released a "Sharia Governance" framework for Islamic banks in the Kingdom of Saudi Arabia. SAMA has focused on establishing a supervisory system for banks that conduct Islamic banking activities in the kingdom, based on its supervisory position and in light of the remarkable growth in the amount of financing and investment related to banking products and services that are in accordance with the requirements and principles of sharia. In a statement, SAMA explained that the project's first stage was the release of the "sharia governance system," which set a minimum for governance practices relevant to Islamic banking. Moreover, the sharia governance structure also included specifying the board of directors', executive management's, sharia committee's, and internal control departments' functions and responsibilities, as well as a variety of other aspects of adherence to sharia's provisions and principles.

Board and management

The management of Islamic banking would be according to Islamic Governance compliances. The reason for this is that Islamic Governance is a complete guideline for making different rules and regulations for Islamic banking. The basic foundation of Islamic Banking is related to Islamic corporate governance that provides guidelines according to religious ethics and social contemplations. It requires a complete collaboration between the board management and working of staff in the banking. With this relationship, it will be beneficial to investigate stockholders' interest in foreign exchange, and they should address the positive relationship between Islamic banking performance and Islamic ethics and guidelines, which will aid in the formation of a good Islamic banking sector structure. For instance, according to Chapra and Ahmed (2002), a stable financial system is based on the organizations that are maintaining the stakeholder's confidence[17]. The stakeholder includes shareholder customers and government. Islamic corporate governance is helpful to make clear and transparent accountability for the people who have a direct and indirect relationship with the stakeholders. Corporate governance is implemented by the board of directors and the structure of management can be implementing quality of strategic information so that board could successfully implement operations of performance. Islamic banking face different issues that provide complex governance and Shari'ah compliance issues that are considered to resolve and attain better opportunities for the account holders.

Rahman (2017) emphasizes in his analysis the noncompliance of Shariah with market risk, which makes the study of Islamic banking corporate governance more interesting. The study examined the impact of corporate governance on Islamic banking and specifically its focus on Shari'ah compliances that are providing education about the board meetings and management structure [18]. It contributes good efforts in the Islamic Finance literature and provides multiple ways of checking the arguments in composite corporate governance index. Ashraf et al. (2015) provide another obvious information about Islamic banking that it has emerged as the alternative to conventional banking and it has to improve the performance as compared to conventional banking[19]. Additionally, it is composed of Islamic educations and jurisprudence that provide complete knowledge of contemporary finance emerging according to the Shari'ah board's regulations. In essence, Shari'ah board is a non-profit organization that provides accounting and auditing policies to various organizations. It is defined as an autonomous body that specializes in Islamic financial institutions and ensures that all economic education adheres to Shari'ah principles [20].

The Shari'ah board's job is to provide laws and other required distributions of non-compliance income to guide banks in building a strong backbone of Islamic banking, with the ultimate goal of preserving the Islamic financial industry's reputation and increasing its performance. Shari'ah is considered a more significant strategic body in Islamic banking and it is fundamentally as the conventional banking follows the corporate governance [21]. The structure of Islamic banking provides complete compliances of education that are providing a stable financial system depending upon the organizational structure and maintaining the confidence of shareholders. Corporate governance providing proper authority to the board of directors to make better structure and quality of strategic figures that would be helpful to perform successful functions of working in the Islamic banking industry [22].

Now, before I determine the main characteristics and measures that I need to investigate within the Sahria Compound index and its effect on bank performance, the previous literature reviewed above was helpful in determining the likely settings for Sharia governance impact on bank performance.

Previous works have a long-lasting distinctiveness, owing to the fact that they consider a variety of parameters for evaluating bank efficiency in general (not just for Sharia governance), and as a result, this has informed my own perspective. The ability to establish strategies for identifying effective interventions is the primary goal of this. This awareness differs significantly from that needed by traditional Islamic schools (e.g., Hanafi and Hanbali), since it is not limited to the banks' internal circumstances. This was the case with some Islamic banks; however, while this statement is instructive and revealing, it is insufficient. This is because, unlike previous research, I am not attempting to create a standardized Sharia governance profile. Rather, my goal is to establish a common profile of Sharia governance's effect on Islamic banks.

With this in mind, the next segment examines the Corporate Governance Index (CGI), Sharia Supervisory Board Size: SSBS, SSB Member's University Education (SBE), Board Meetings (BM), and Board Independence (BI).

Research methodology

Corporate Governance Index (CGI)

For measuring the efficiency of Sharia boards, it includes four attributes, Occurrence of Sharia Board (SB), Sharia Board size (SBS), Sharia Board experience, and Sharia Board education (SBE) [14]. (Mollah, Hassan, Al Farooque, and Mobarek 2017) used data from 52 Islamic banks and 104 commercial banks to create a corporate governance index (CGI) that consists of 12 boardroom qualities to determine the impact of corporate governance on bank results. The authors came to the conclusion that Islamic banks have a stronger corporate governance system than commercial banks. In this paper, I have constructed a corporate governance index on the qualities of a boardroom of an Islamic bank.

Sharia Supervisory Board Size: SSBS

Sharia governance is the system that informs and facilitates all activities of Islamic Banks. In Indonesia, Dewan Pengawas Syariah (DPS) is the term used to control Sharia internal control institutions in Islamic banks. Generally, in other countries instead of DPS, there is Sharia Supervisory Board or Sharia committee, or sharia council. Although for every country, the number of Sharia supervisory board members is different but has similar functions and duties. The SSB is an integral part of the Islamic banking regulatory framework. There is a positive and important link between the size of SSBs and the success of Islamic banks in the literature (Grassa & Matoussi, 2014).

SSB Member's University Education (SBE)

Sharia supervisory board members should have an understanding of Sharia along with financial and accounting knowledge helps them to take a free decision. Kakabadse, et al (2010) examined that education is a significant component that shows the quality of the board. As a result, education has a positive correlation with Islamic bank results. Highly certified and knowledgeable members of SSB aid in the way to earn more revenue since the time spent on studying and deciding on the issues put forward to the SSB will not take that much of time as long as the scholars have strong Sharia and financial background. (Musibah &Alfattani, 2014),

Board Meetings (BM)

The examination of the most important component of corporate governance is the frequency of board meetings. The board meeting aims to provide a chance for the board members to sit together and exchange their ideas so that the sharia supervisory board can work in a better way and as a result, there would maximize the performance of the banks.

Board Independence (BI)

(Liu and Fong 2010) examined that an independent board is usually known as one of the types of a good board. To establish an operative board structure, it is crucial to ensure the independence of the board from the management. (Huson et al. 2001) stated that there is a positive association between independent directors and firm performance.

Data analysis

To collect panel data of selected 15 Islamic banks of GCE, Malaysia, and Asia. The information is taken from the annual report of the respective banks. Annual reports from Islamic financial institutions are made available to the public as a source of information on their business accomplishments and results. As a result, it contributes to the company's accountability. (Bakar, 2016). The size of the sample is from 2010 to 2020. Islamic banks that are taken as a sample are Alizz bank Oman, Albaraka Turk, Arab banking corporation Singapore, Maldives Islamic Bank (MIB), Bahrain Islamic Bank, Al Rajhi Bank, Bank Islamic Malaysia Berhad, CIMB Indonesia, Meezan Bank Limited Pakistan, Qatar Islamic Bank, Al Jazeera Bank, Ziraat Katilim Turkey, Hong Leong Islamic Bank Berhad, Al Baraka Islamic Bank MCB Islamic Banking Pakistan, and Warba Bank were taken as a sample for the purpose of examining the effect of corporate governance on Islamic banks performance.

After collecting relevant data for all above mentioned Islamic Banks for the years 2010-2020, I compiled all the gathered data in Excel and used the software Eviews, to run a regression analysis. the paper concentrated on checking the links or relationships between the variables to get a sense of the effect of corporate governance on Islamic banks' business models and growth. Moreover, the paper used certain Independent and Dependent Variables. See table 1 for more information.

Model of Study

In this study, we will use the following regression model.

$$\text{Performance}=\alpha_{\circ} + \beta_1 SBS + \beta_2 SBE + \beta_3 BI + \beta_4 \text{BM} + \beta_5 CGI + u_t$$

Independent variables are CGI which is the corporate governance index of Islamic Banks, Sharia board size, Education of Sharia Supervisory Board education, board meetings, and independent directors. Bank performance is measured using ROA and ROE which are dependent variables.

In this research, ROA and ROE are used as the dependent variable. ROA expresses the profitability of the firms contributed by the firm's assets.(Zabri et al. 2016). ROE represents the return generated on the shareholder's investment into the firm. Widely used by investors, the ROE ratio is an important measure of a Bank's earnings performance. The ROE tells common shareholders how effectively their money is being employed. This is especially important for financial institutions such as banks that are by nature highly leveraged.(Abdallah and Ismail, 2016)

There are numerous econometric methods and techniques used for examining the panel data. To get the required result for panel data, different econometric techniques such as the Common Effect model, Fixed Effect model, and Random Effect model. As the nature of the study is dynamic so I have used the two-step generalized method of moments GMM method in which first I used the Breusch-Pagan (1979) test, to confirm whether the study used a random effect test or fixed effect test, or Pooled OLS. Hausman test is applied in the study to decide between the fixed effect test and random effect test.

Why GMM

I had examined the model by using the Generalized Method of Moments (GMM). In 1982, Hansen develop GMM. Many researchers like Arellano and Bond (1991), Arellano and Bover (1995) and Blundell and Bond (1998), and many more, later used GMM for the investigation of the panel data model. By using GMM in panel data, many estimation problems vanished. If we do not use GMM then we may have the problem of calculating our findings. The GMM approach has the advantage that as compared to maximum likelihood, it requires much weaker assumptions about the initial conditions of the data generating process, and avoids full specification of the serial correlation and heteroskedasticity properties of the error, or indeed any other distributional assumptions. Moreover, GMM is a natural choice when multiple explanatory variables are endogenous.

Hausman test

To test the difference between the fixed-effect model and the random effect model the Hausman test is used. In panel data, to choose a model it is necessary to know about independent particular components and homogeneity of independent variables. To select the right model, a three hypotheses test is used. One of them is for the testing whether a random or fixed effect model is an appropriate one, by identifying the presence of the endogeneity in explanatory variables.

Results and Discussion

Selected basic statistics reported to obtain insights into the data. See Table 2 for more clarifications. The performance variables used in the analysis are ROA and ROE having mean values of -0.04 and 1.97 respectively. The minimum values of performance variables ROA and ROE are negative that reflects crisis period effects since, the data set of the study starts from 2010 which is the initial period of recovery from the global financial crisis.

The level of ICG index is 49 percent ranging from 28 to 90 percent. Sharia board size was found 4 members on average with the minimum value of 1 and maximum of 14. Sharia board members university education is just 77 percent with a minimum value of 0 and a maximum value of 67.1 percent. It shows that many countries have more knowledge related to accounting and finance as compared to others. BOD independence was found 8.27 percent with a minimum value of 0 in and a maximum value of 53.91 percent which shows that some Islamic Banks have more independent directors. Average board meetings were found around 10 meetings a year with a range of 3 to 49. The regression analysis in Table 3, we can see that the empirical results of the study by applying the panel random-effects model. The results show that the CG index was consistently insignificant which reveals that CGI is not positively associated with the performance of Islamic banks. SBS is found positively significant for ROA and ROE performance variables. The results additionally show that a larger Sharia board size is influential in enhancing the overall financial performance of the Islamic Banks. The larger Sharia board size having diverse experience and expertise could be more beneficial for the value-enhancing of the firm. Since, the complexity of the work of the Sharia board is high as they not only take care of the Sharia support of newly developed products &services but also involve in Sharia audit, disposal, and distribution of income and answering the issues and quarries raised by the stakeholders and general public at large. Keeping in view the rapid growth of Islamic Banks and its initial stage into the banking business, a majority of the Islamic Banks have age less than 10 years, the larger Sharia board size could be required to handle all these challenges especially the challenge of immature fatwas that could cause products withdrawals and Sharia non-support that lead to customer mistress on Islamic Banks. This result shows that SSB size will be positively associated with Islamic Banks' performance. The Bank will gain many advantages if the board size gets larger. This is because the directors with cross-directorship will get more networking opportunities from other companies. (Jaafar & El-Shawa, 2009).

SBE is found consistently significant in my analysis which may indicate the good finance-related knowledge of the Sharia board of the majority of the Banks. This result is related to many of the previous studies conducted on Islamic banking in which the Sharia board was considered an important element, however keeping into consideration that 77% of the Sharia board members have a degree related to finance, accounting and economics. Banking business complexity requires a relatively larger board size. After the global financial crisis not only the board size matters, but its independence is more pushed by the regulators. Board Independence was found negative and significant in the case of ROE and insignificant in the case of ROA which shows that Independent directors will not be positively associated with the performance of Islamic Banks The board meeting variable was found negatively significant in the case of ROE which reflects that more frequent meetings may have a negative impact on financial performance as they signal reactive.

Conclusions

The ability to develop tools for identifying effective therapies has been demonstrated to be the study's principal purpose. Rather, my purpose is to create a consistent profile of the impact of Sharia governance on Islamic banks. As a result, after gathering essential data for the aforementioned Islamic Banks for the years 2010-2020. As seen in Table 1, of this article, the focus of the article was on examining the links or interconnections between variables in order to get a sense of the impact of corporate governance on Islamic banks' business models and growth.

The paper looked at the Corporate Governance Index (CGI), Sharia Supervisory Board Size: SSBS, Sharia Supervisory Board Member's University Education (SBE), Board Meetings (BM), and Board Independence with this in mind (BI). The findings revealed several critical outcomes. For example, the CG index was consistently negligible, indicating that CGI is not favorably connected with Islamic bank performance.For the performance factors ROA and ROE, SBS was found to be positively significant. The findings also demonstrate that having a larger Sharia board has an impact on the overall financial performance of Islamic banks.

Given the rapid growth of Islamic Banks and their early stages in the banking business the majority of Islamic Banks are under 10 years old), a larger Sharia board size may be required to address all of these issues, particularly the issue of immature fatwas that may result in product withdrawals and Sharia non-support, which may result in customer mistrust of Islamic Banks. If the board of Sharia Board expanded, the Bank will reap numerous benefits. This is due to the fact that directors with cross-directorship will have more opportunity to networking.

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Annex

Table 1. Explanation of Variables

VARIABLES	DESCRIPTION	SIGN
Return on Assets	Net Income / Total Assets	ROA
Return on equity	Net Income / Shareholders Equity	ROE
Sharia Supervisory Board Size	The numbers of members on corporate governance	SBS
Education of Sharia Supervisory Board	Percentage of Sharia supervisory board members having a university education	SBE
Board Independence	Percentage of independent directors, defined as outside directors	BI

Shariah board Meetings	Number of the meeting held in a year	BM
Corporate Governance Index (CGI)	Qualities of the boardroom of Islamic bank	CGI

Table 2. Results of Descriptive Statistics

	SBS	SBE	BI	ROA	ROE	BM	CGI
Mean	3.82	76.8	8.27	-0.04	1.97	10.25	0.49
Maximum	14	67.1	53.91	3.02	31.01	49	0.9
Minimum	1	0	0	-9.37	-23.7	3	0.28
Std. Dev.	3.03	16.97	13.97	1.47	7.38	9.37	0.13
Observations	110	110	110	110	110	110	110

Table 3. Estimating a Panel Data Regression In particular:

VARIABLES	ROA		ROE	
	1	2	1	2
CGI	-0.649	-1.002	-5.13	-7.862
	-1.352	-1.476	-6.571	-6.891
SBS	0.118**	0.083*	0.691**	0.843***
	-0.051	-0.056	-0.308	-0.291
SBE	0.012	-0.002	0.142**	0.072
	-0.008	-0.008	-0.048	-0.046
BI	-	-0.007	-	-0.131**
		-0.012		-0.054
BM	-	-0.057	-	-0.429**
		-0.034		-0.163
CONSTANT	-0.975	-0.542	-11.303**	-9.389*
	-0.951	-0.997	-5.367	-4.873
OBSERVATIONS	127	121	127	121
OVERALL R2	0.47	0.55	0.32	0.64

WALD CHI2	106.76***	184.22***	44.19***	140.64***

Note: ***p<0.01, **p <0.05, *p <0.1. Standard errors are in parentheses

Panel Random Effects Regression used (dependent variables: ROA & ROE respectively).