Journal of Economic Cooperation and Development

Islamic Corporate Governance and Financial Performance: The Interactive Effects of Board of Directors and Shariah Board Attributes

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ABSTRACT

Islamic corporate governance recognizes the Shariah Supervisory Board (SSB) as an extra layer of governance to ensure shariah-compliance in Islamic banking operations. Such a governance structure tends to translate to better financial performance with effective interaction between SSB and the corporate board. However, empirical analysis is still lacking on the interactive relationships among Islamic corporate governance variables. This study therefore investigated the relationship between Islamic corporate governance and financial performance with the aim of examining the interactive effects of corporate board and SSB attributes on financial performance of Islamic banks in selected countries. Data were collected from annual reports of the selected banks over a period of 11 years, 2014-2024. The data were analysed using the Feasible Generalised Least Sqaure (FGLS) regression technique. The results revealed that corporate board (CB) index (β=0.224, z=15.11) and shariah supervisory board (SSB) index (β=0.154, z=8.461) had positive and significant effects on return on assets (ROA). In terms of interactions, the study found positive and significant effects of *SSB*CB (β=0.190, z=2.693), SBM*CB (β=0.026, z=2.651), SBQ*CB (β=0.179, z=7.530), SBS*CB (β=-0.022, z=-6.110) on ROA while the effects SGD*CB (β=-0.040, z=-0.334) was significantly negative. The study concluded that interaction between CB and SSB enhances effective governance and improved financial performance. Regular interactive meetings of the Board or its committees and SSB members, possession of highest academic qualification, and better representations of female scholars are recommended to the policy makers and management, for effective governance that will improve financial performance of Islamic banks.

Keywords: Corporate board, Financial performance, Islamic governance, SSB attributes, SSB index

JEL Classification: G21, G32, G34

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