Corporate Governance in Islamic Banking: The Role of the Board of Directors

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Abstract
The unprecedented amount of losses born by the banking industry during the crisis has brought into spotlight the issues concerning regulatory oversight, risk management and disclosure. However, Islamic banking industry remain immunized against the negative effects of crisis and have shown resilience.This study examines the relationship between multi-layer corporate governance model of Islamic banking and their performance. The sample size consists of 17 Islamic banks, 5 from Pakistan and 12 from Malaysia for the period 2009-2015. The results of the study show that Shari'ah supervisory board (SSB) size exerts significant and negative effect on value of firm. University education of Shari'ah board found positive and significant. While, factors related to board structure were found statistically insignificant, which could indicate that in case of Islamic banks' performance Shari'ah supervision related corporate governance factors are the significant determinants. To check the impact of supervisory/advisory role of SSB, sample is divided in two parts; the results of advisory were almost similar as of overall sample. However, the results of supervisory role of SSB worsen the results. Few important policy implications have been derived from results (i) Smaller sized SSB having knowledge of finance and accounting increase the value of firm (ii) strict supervisory role of SSB reduce the performance since there is a trade-off between profit and strict ethical compliance.

Key words: Corporate governance, Shari'ah supervisory board, board structure, bank performance

1. Introduction

Islamic financial industry has "weathered the storm" of recent financial crisis that flatten the western financial institutions and jolted the conventional corporate governance structures based on "self-interested opportunistic agents" (Green 2010; Hussain, Shahmoradi, & Turk, 2015; Yeates, 2008). These developments attract the interests of policymakers, academia, and regulators towards corporate fairness, transparency and accountability. Basel Committee on Banking Supervision (BCBS, 2010) through Basel-III further tightened the risk-taking exposure of banks' and called attention to the need to study, understand and improve the governance practices of banking industry. Islamic Corporate Governance (ICG) is based on ethics, morals, and social welfare to achieve Shari'ah objectives (Hasan, 2008). Ibrahim (2007) argued that corporate governance of Shari'ah compliant business first look at the transaction structure, as Shari'ah is concerned not only with the substance but also with the form of transaction. According to Ginena (2014) Shari'ah risk constitutes credible hazards to Islamic banks and the possible consequences of Shari'ah non-compliance may lead to bank runs. Another very interesting study conducted by Chapra and Ahmed (2002) reported that 94.6 percent Islamic banks depositors of Sudan, 85.6 percent of Bahrain and 66.8 percent of Bangladesh would withdraw their deposits if their Islamic banks breach Shari'ah adherence.

ICG resembles "stewardship" theory as opposed to the "agency" theory (Lewis, 2005). In the context of ICG, decision-making extends beyond the conventional approach and include all those affected e.g. shareholders, customers, suppliers, workers and society at large. The governance system of Islamic banks is multi-layer as larger number of parties are involved in it, in addition to investors and stakeholders, regulators and Islamic community have a direct watch on Islamic banking system (Grassa and Matoussi, 2014).The presence of Shari'ah superviosy board (SSB) in Islamic banks, which Choudhury and Hoque (2006) named 'Supra Authority" present an additional layer of governance that decide and supervise all Shari'ah related matters and ensures Shari'ah compliance, along with regular boards of directors, senior management, and operational subcommittees, change their governance structure into what we call "multi-layer" governance. SSB is an additional layer of monitoring and oversight that could cause constraint on bank's operations. SSB might restrain boards of directors and senior management from engaging in unethical transactions and aggressive risk taking activities. Comprehensive Shari'ah Governance Framework (SGF, 2016) mentioned that "all products or services to be offered and/or launched by the IBI shall have prior approval of the SB". This

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restrains senior management of Islamic banks in Pakistan to indulge into aggressive risk-taking and unethical practices. As, Islamic banking is based on three principles; (i) interest free financial transactions (ii) profit and loss sharing and, (iii) socially responsible investment (Abel-Baki and Leone, 2014) with the ultimate objective of Shari'ah adherence that forbid unethical practices.

This paper examines the relationship between multi-layer corporate governance and performance of Islamic banks. And the study aims to answer the research question of "does the presence of SSB really affect Islamic bank performance?" Specifically, the objective of the study is to analyze the effect of (i) Shari'ah supervisory board size, SSB education (ii) structure of board of directors; board size, board independence and, (iii) firm level variables; capital adequacy, leverage and Z-score on performance of 17 Islamic banks for the period of 2009-2015. The study further subsamples the analysis by looking into the SSB's supervisory/advisory impact on performance. The sample size consists of 17 Islamic banks, 5 from Pakistan and 12 from Malaysia. The selection of these two countries for analysis is based on (i) both countries shares similar democratic, social and cultural values (ii) dual banking systems (iii) almost same regulatory setups (iv) both countries are considered to be the potential leader in Islamic finance.

The rest of the paper is organized as follows. Section 2 review literature and develop hypotheses. Section 3 present sample and methodology. Section 4 provides results and their discussion and finally, section 5 summarizes the paper.

2. Literature review and hypotheses formulation

The role of board of directors (BOD) as a mechanism for corporate governance of banks takes on greater relevance in a framework of intensified competition, strict regulation, and higher informational asymmetries (Andres and Vallelada, 2008). Thus, the board becomes a key mechanism to have diligent oversight on managers' behavior towards risk, ethics, and disclosure and to avoid any conflict of interest between the bank and regulator. The complexity of work of BOD's in the Islamic banks, having multi-layer corporate governance mechanism, increases their coping with regular monitoring and advising by manifold. They also are responsible and accountable for ensuring Shari'ah compliance. As, comprehensive Shari'ah Governance Framework (SGF, 2016) of State Bank of Pakistan (SBP) in its first part of the "Role of Board of Directors" stated that;

"The BOD shall be ultimately responsible and accountable for ensuring full conformity of the IBI's operations with Shari'ah principles. Like other risks faced by an IBI, the BOD needs to be fully cognizant of the risk of Shari'ah non-compliance and its potential implications on the reputation and business of the IBI. Towards this end, the BOD shall introduce an effective mechanism including diligent oversight on functioning of the Framework and compliance with the fatawa, instructions, and guidelines of the SB".

2.1 Shari'ah Supervision and bank performance

Extensive amount of theoretical literature is available on corporate governance of Islamic banks (e.g. Abdel-Baki & Leone 2014; Archer & Karim 2012; Bhatti & Bhatti 2010; Ginena, 2014). However, there is a dearth of empirical literature on corporate governance of Islamic banks. The recent global financial crisis has highlighted the role of Islamic banking and finance as an alternative to conventional banks and capital markets. And shed serious doubts on conventional corporate governance models. To some authors like (Green 2010; Hussain, Shahmoradi, & Turk, 2015; Yeates, 2008) the superior performance of Islamic banks during the crisis was based on their governance structure that promotes fairness and ethical practices. Mollah and Zaman (2015) studied Shari'ah supervision's effect on banks performance of 86 Islamic banks of 25 countries for the period of 2005-2011. Their results reveal that Shari'ah boards are profit driven and play a significant role in protecting the shareholder's interest and positively affect the performance of Islamic banks. BODs of Islamic banks are more independent compared with their conventional counterparts. However, independent directors are associated with a decline in performance (Mollah and Zaman, 2015). In addition, Muslim population of the country, bank capitalization and risk-taking behavior of IBs have positive and significant effect on value of firm. Grassa and Matoussi (2014) applied descriptive approach to study different characteristics of ICG of Islamic banks for GCC and Southeast Asia countries. In their comparative analysis they used SSB size and education as main variables and found that some of the central banks have SSB size restricts like Bank Negara Malaysia and Bahraini law requires at least 5 and 3 members respectively, while others are silent about its size. They also show that only 10.43 percent of the SSB members have knowledge about accounting and finance, out of which GCC SSB's represent 11.24 percent 8.74 percent

Southeast Asia. Kolsi and Grassa (2017) argued that AAOIFI organization member banks have higher expertise in accounting, financial markets and Shariaa prescriptions than non-members. Therefore, SSB members having knowledge of finance and/or accounting is so important and improves the Islamic banks performance. Shahzad et. al., (2013) investigates the perceived importance of management of Islamic banks and Islamic banking windows of conventional banks regarding different dimensions corporate governance practiced in the Pakistan. Their study document that the most important dimensions which affect the CG in Islamic banks are BOD and SSB, while almost all dimensions of CG were important for Islamic banking windows. Quttainah (2013) examined how Shari'ah boards impacts the earning management behaviors within Islamic banks. They suggested that various board characteristics, such the size, accounting and auditing board of directors, are important determinants of the earning management for Islamic banks. Grassa et al. (2010) argues that no significant relationship has been found between Shari'ah board characteristics and financial performance. However, Shari'ah governance attributes are efficient in terms of Shari'ah compliance transactions.

H1: There is a positive effect of SSB size on bank performance.
H2: There is a positive effect of SSB financial knowledge/education on bank performance.

2.2 Board Structure and bank performance

2.2.1 Board Size

Keeping in view the complexity of banking business one might expect boards of directors to be larger, since a larger board exercise better monitoring and brings more human capital to advise managers (Andres and Vallelada, 2008). There is a positive association between board size and Islamic bank's performance measured by ROA and Tobin's Q (Grassa and Matoussi 2014; Quttainah 2013; Shahzad et. al., 2013). However, Mollah and Zaman (2015) and Bukair and Rahman, A. (2015) found negative association between board size and firm performance, and Grassa et al. (2010) found no significant relation between board size and performance for Islamic banks. Andres and Vallelada, (2008) used both accounting and market measures of firm performance of conventional banks of six OECD countries and positive effect of board size on value of firm. Adams and Mehran, H. (2005) argued that larger board size helps enhance the performance of banking firms and as contrary to the evidence for non-financial firms, banking firms with larger boards do not underperform their peers in terms of Tobin's Q.

H3: There is a positive effect of board size on bank performance.

2.2.2 Board independence

Independent directors have fewer conflicts of interest while performing their duties of monitoring, advising and to avoiding conflict of interest with the regulator. Hence, a positive link between the independent directors and bank value is expected. There is a positive association between board independence and Islamic bank's performance (Fuzi, et.al, 2016; Bukair and Rahman, 2015; Quttainah 2013; Shahzad et. al., 2013). However, Mollah and Zaman (2015) found independent directors are associated with a decline in performance. Andres and Vallelada, (2008) argued that corporate governance literature offers no conclusive evidence on the effect of outside directors on firm performance. Wang, et. al., (2015) documented that the industry expertise of the appointed outside directors increase value of firm significantly.

H4: There is positive relationship between Board Independent and Bank Performance.

2.2.3 Board meetings

The analysis of the relationship between board structure and performance is incomplete if we do not take into account the internal functioning of the board. There could be several factors that can affect how boards operate. One particularly important factor is the frequency of board meetings (Vafeas, 1999). Board meetings provide board members the opportunity to come together and to discuss, exchange, and share ideas on the better functioning of bank supervisory strategies and advisory plans. Hence, more frequent board meetings enhanced the control over managers. A single study of Grassa and Matoussi, (2014) discusses the descriptive statistics of board meeting for GCC and Southeast Asian countries. They report that on average 7 meetings a year were conducting in the both regions, around 5 in GCC and 9 in Southeast Asia. Andres and Vallelada, (2008) argued that frequency of the board meetings have for and against arguments. A positive relation between the frequency of meetings and good performance indicates that board members find the chance to meet frequently to exchange the ideas and monitor the management (proactive boards). The frequent meetings might also be a result of board reaction to poor performance of the bank (reactive boards).

H5: There is a positive effect of number of board meetings on bank performance.

3. Data and econometric model

3.1 Data and variables

To collect the panel data of the selected 17 Islamic banks of Pakistan and Malaysia, the information is obtained from the annual reports of respective banks, their websites and the central banks of respective countries. Our sample size covers seven years from 2009-2015. The selection of sample period is detected by the availability of data. As most of Pakistani Islamic banks annual reports were not found at a unified format before 2009 and the issue of missing values restrict us to start collecting data regarding corporate governance variables from 2009. The selection of Pakistan and Malaysia is motivated by the following factors; (i) both countries share similar democratic, social and cultural values (ii) dual banking systems (iii) almost same regulatory setups (iv) both countries are considered to be the potential leaders in Islamic finance. Within Asia, Malaysian Islamic finance market is 10 percent of global Islamic assets. Although the share of Pakistan is quite low i.e. 1.75 percent however, it is ranked as an emerging Islamic finance market (Islamic Financial Services Board, 2015). Our task of handpicked data was relatively tedious. The annual reports were not available at a unified format and even in the same country there were many formats, missing data and sometimes within the same bank format changes over time. According to the website of Bank Negara Malaysia there are 16 banks mentioned as Islamic, but due to data non-availability issues the resear limit at 12 banks. In case of Pakistan, five full-fledged Islamic banks operating in the economy and all are taken. As Burj bank merged with Albaraka bank on September, 2016, however, its data set is available till 2015.Therefore; we have considered it for analysis as a separate financial entity. Bank performance is measured by the accounting measure of return on assets (ROA). The explanatory variables used in the model are discussed and describe in table 1.

The corporate governance variables selected for this study are taken from the survey of literature on ICG. The study used Shari'ah supervisory board's size (SSB_S) and education (SSB_ACF) as proxy for Shari'ah supervision. While, board structure is presented by the variables board size (BS), board independence (B_Ind), meetings of the board in a year (B_Mts). Three company level variables included are; net loans to total assets (NLTA) as a measure to the proportion of assets tied up to loans, shareholders's equity to total assets as an indicator of level of protection and Z score to measure the risk of default.

The following empirical model to test our hypotheses.

Table 1 - Variables description

Variables	Symbols	Description
Return on assets	ROA	Net profit after tax to total assets
Shari'ah supervisory board size	SSB_S	Total members of Shari'ah board
Education of Shari'ah board	SSB_ACF	Percentage of members of the SSB having university degree/certificate of accounting, finance, economics and commerce.
Shari'ah board supervisory /advisory	SB_ S/A	Dummy variable set equal to 1 if the shari'ah board has a supervisory role, 0 otherwise.
Board size	BS	Number of members in the board of directors
Board independence	B_Ind	The proportion of independent directors in the board
Meeting year	B_Mts	Number of meetings held by board of directors during the year.
Capital ratio	CR	Shareholders' equity divided by total assets.
NLTA	NLTA	Net loans divided by total assets
Z score	Z-score	Z score measures the distance to default, which is estimated as, ROA plus capital to asset ratio divided by standard deviation of ROA.
EQTA	EQTA	Shareholders' equity to total assets

$$performance_{it} = \beta_o + \beta_1 SB_{it} + \beta_2 CG_{it} + \beta_3 X_{it} + \varepsilon_{it}$$

Where *i* goes from bank 1 to bank 17 and *t* takes the values of the years from 2009 to 2015. β parameters are estimated coefficients for each of the explanatory variables. Sb_{it} is the matrix of Shari'ah supervision variables such as Shari'ah board size and education, CG_{it} represents matrix of board structure variables like board size, board meetings and independent directors and X_{it} is the matrix of control variables. While, bank performance is measured using ROA_{it}.

For the analysis of panel data, data having the characteristics of both time series and cross sectional, one of the following techniques are used for estimation;

- Pooled regression
- Fixed effects regression
- Random effects regression

For the selection of one of the above techniques, Huasman test is conducted to determine the selection of appropriate model. In our study fixed effects model was estimated as the probability of Huasman test came under five (0.0034), which suggested fixed effect model to be used for the analysis of the panel data.

4. Results discussion

4.1 Descriptive statistics

Table 2 shows overall statistics of these variables. The average ROA is less than 1 percent, the maximum ROA of 1.72 is of Bank Islam Berhad Malaysia for the year 2012 and minimum value of -4.472 is of Kuwait FH Behrad Malaysia for 2011. The mean size of Shari'ah supervisory board is 4.277 which is close to the value of 4.1714 reported by Mollah and Zaman (2015) and 4.28 by Grassa and Matoussi (2014). The maximum value of 7 is of Bank Islam Berhad Malaysia for the year 2010 and minimum value of 1 is of Burj bank Pakistan for throughout the period under analysis.

The percentage of members of the SSB having university degree is on average 32.577 percent which is much higher than 10.43 percent reported by Grassa and Matoussi (2014). The substantial difference exists because Grassa and Matoussi (2014) considered only university education of accounting and finance. The maximum value of 100 percent is of Hong Leong Islamic bank berhad Malaysia for the year 2012 and minimum value of 0 percent is of Burj bank Pakistan. As for board structure variables of board size on average was found 7.932 which is close to 8.29 reported by Grassa and Matoussi (2014) and less than 9.0804 reported by Mollah and Zaman (2015).Board independence on average is 43 percent higher than Mollah and Zaman (2015) shown 26.71 percent and lower than Grassa and Matoussi (2014) reported 60 percent. An average number of board meetings of 8.663, which is higher than 7.04 meetings shown by Grassa and Matoussi (2014).

Table 2 - Descriptive statistics

Variables	*N*	Mean	SD	Min.	Max.
Return on assets (ROA)	119	0.447	0.961	-4.472	1.72
Shari’ah board size (SSB_S)	119	4.277	1.227	1	7
Education of Shari’ah board (SSB_ACF)	119	32.577	19.160	0	100
Shari’ah boards sup. /ad. (SB_ S/A)	119	0.294	0.457	0	1
Board size (BS)	119	7.932	1.593	4	12
Board independence (B_Ind.)	119	43.000	19.641	0	85.712
Meeting year (B_Mts.)	119	8.663	4.046	4	18
Capital ratio (CR)	119	9.046	4.578	4.316	36.910
NLTA	119	0.553	0.116	0.313	0.732
Z score	119	0.900	1.316	-4.694	4.045
EQTA	119	0.090	0.045	0.043	0.369

Table 3 reports country specific information; on average Malaysian Islamic banks are more profitable, having larger Shari'ah boards, higher percentage of university degree holders in Shari'ah boards, higher proportion of independent directors in the boards, more number of meetings than Pakistani Islamic banks and all these attributes of corporate governance are statistically significant. However, Pakistani banks are better in Shari'ah board supervisory status and board size than Malaysian Islamic banks and all these attributes are statistically significant.

4.2 Regression results

Panel data analysis is considered the most efficient method to use when the sample is a mixture of time series and cross sectional data. It allows taking into account the unobservable and constant heterogeneity i.e. the specific features of each bank e.g. management style and quality, business strategy, market perception etc (Andres and Vallelada, 2008). Panel fixed effects model is applied in the study as the probability value of Huasman test came under five (0.0034).

The overall results reveal that Shari'ah supervisory board size (SSB_S) exerts negatively significant effect on

Table 3: Statistics by country

Variables	Pakistani Islamic banks' sample mean	Malaysian Islamic banks' sample mean	Sample t-test
Return on assets (ROA)	-0.107	0.678	-3.584***
Shari'ah board size (SSB_S)	2.820	4.881	-11.699***
Education of Shari'ah board (SSB_ACF)	28.920	34.447	-1.733**
Shari'ah board Sup. /Ad. (SB_ S/A)	0.800	0.083	9.555***
Board size (BS)	9.343	7.345	7.923***
Board independence (B_Ind.)	19.387	52.848	-11.541***
Meeting year (B_Mts.)	5.514	9.976	-8.772***
Capital ratio (CR)	10.901	8.273	2.284**
NLTA	0.459	0.592	-6.959***
Z score	0.006	1.274	-5.074***
EQTA	0.109	0.076	3.129**
N	*35*	*84*	
Note: ***significant at 1%,**significant at 5%			

value of firm. As literature on corporate governance suggest that larger boards lead to the problems of coordination, control and flexibility of decision-making. Andres and Vallelada, (2008) pointed-out that adding one new director is positively linked to a bank's performance as it improve monitoring and advising, however, when the number of directors reaches 19,Tobin's Q starts to diminish. The negative effect of (SSB_S) on performance could indicate the small sized Shari'ah boards are more efficient in developing consensus and have good control over Shari'ah related matters oversight and making decision. This result contradicts the findings of Mollah and Zaman (2015) and rejects H1 of the study. Few researchers like (Adams and Mehran, 2005; Andres and Vallelada, 2008) purposed optimal board size around 19 directors for OECD countries. However, no such research is conducted on the optimal Shari'ah board size. The second variable of Shari'ah supervisory board related to university education of Shari'ah board (SSB_ACF) found positive and significant. This reflects that Shari'ah board members having knowledge of finance/economics increase the profitability of Islamic banks. Position of relevant knowledge and expertise enable the boards' members to understand the nature, structure and implications of submitted product(s). They need less briefing from supporting staff and could demand more documents and difficult to be deceived. And Shari'ah knowledge together with knowledge in accounting and finance help the board to be independent while making decision. This supports H2 of the study.

While, all the variables related to board structure were found statistically insignificant, which could indicate that in case of Islamic banks' performance Shari'ah supervision related corporate governance factors are significant determinants.

Firm specific variables, Z score and EQTA do have a positive and significant effect on firm performance, while NLTA found insignificant.

The sample of the study is bifurcated into two parts to examine the Shari'ah board's supervisory/ advisory effects on bank performance. The advisory role regression results are almost similar to the results of overall

Table 4: Regression analysis (panel fixed effects), dependent variable ROA

Variable	Overall sample	Advisory board	Supervisory board
Shari'ah board size (SSB_S)	-0.0005**	-0.0009**	0.0007
	(0.0002)	(0.0004)	(0.0002)
Education of Shari'ah board (SSB_ACF)	0.0034***	0.0047*	-0.0003
	(0.0018)	(0.0024)	(0.0009)
Board size (BS)	-0.0050	-0.0048	-0.0010
	(0.0033)	(0.0040)	(0.0021)
Board independence (B_Ind.)	-0.0002	-0.0009	-0.0004
	(0.0017)	(0.0026)	(0.0007)
Meeting year (B_Mts.)	-0.0001	-0.0002	0.0006
	(0.0001)	(0.0002)	(0.0009)
NLTA	0.0005	0.0034	-0.0011
	(0.0022)	(0.0029)	(0.0012)
Z score	0.0077***	0.0074***	0.0092***
	(0.0002)	(0.0003)	(0.0002)
EQTA	-0.0230 ***	-0.0188***	-0.0221***
	(0.0059)	(0.0075)	(0.0032)
Constant	0.0065	0.0054	0.0016
	(0.0039)	(0.0049)	(0.0026)
R-sq	0.8453	0.8344	0.9926
F-stat (Prob.)	26.01(0.0000)	23.54(0.0000)	9.43(0.0000)
Wald chi2 (Prob.)	90.33(0.0000)	55.24(0.0000)	25.38(0.0000)
N	*119*	*84*	*35*

*Note: ***significant at 1%, **significant at 5% and *significant at 10% levels respectively and standard errors are placed in the parenthesis.*

sample. Since, there is a trade-off between Shari'ah strict compliance and higher profitability as Shari'ah compliance restrict banks to do socially responsible investments and to avoid excessive risk taking. The results of Shari'ah board supervisory role worsen the overall results.

5. Conclusion and recommendations

The purpose of the study was to examine the effects of ICG on bank performance of 17 Islamic banks, 5 from Pakistan and 12 from Malaysia for the period of 2009-2015. The effect of ICG was examined by applying descriptive statistics and regression analysis. In addition, country specific descriptive statistics were also discussed to show comparative strength of ICGs of the two countries.

The results of the study show that Shari'ah supervisory board size (SSB_S) exerts significant and negative effect on value of firm. The negative effect of (SSB_S) on performance could indicate the small sized Shari'ah boards are more efficient in developing consensus and have good control over Shari'ah related matters oversight and making decision. University education of Shari'ah board (SSB_ACF) found positive and significant. This reflects that Shari'ah board members having knowledge of finance increase the profitability of Islamic banks and our finding is consistent with the work of Ghayad, (2008) and Kolsi & Grassa, (2017). Possession over relevant knowledge and expertise enable the boards' members to understand the nature, structure and implications of submitted product(s) for fatawa. Shari'ah knowledge together with knowledge in accounting and finance help the board to be independent while making decision.

The variables related to board structure were found statistically insignificant, which could indicate that in case of Islamic banks' performance Shari'ah supervision related corporate governance factors are the significant determinants.

Shari'ah board's supervisory/ advisory effects were also investigated on bank performance. The advisory role regression results are almost similar to the results of overall sample. Since, there is a trade-off between Shari'ah strict compliance and higher profitability as Shari'ah compliance restrict banks to do socially responsible investments and to avoid excessive risk taking. The results of Shari'ah board supervisory role worsen the overall results.

This study is not without limitations. The first limitation is selection of just two countries; the sample size could be increased in future research to have more robust empirical results. The SSB composition could further be explored in the future research to include its functioning and gender diversity. Future research could also explore the regulatory framework and ownership structure of Islamic banks alongwith the estimated variables.

Few important policy implications have been derived from the results;

(i) Smaller sized SSB having knowledge of finance and accounting increase the value of firm

(ii) Strict supervisory role of SSBs reduce the performance of Islamic banking since there is a trade-off between profit and ethical compliance.

(iii) The regulators of both the countries need to enforce regular publications of comprehensive annual/quarterly reports on standardized format to support accountability and transparency.

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