

Shari'ah Board Traits and Islamic Banks Financial Soundness: A New Paradigm of Islamic Corporate Governance Framework

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Abstract

The stability of banks' finances is being impacted by the growing apprehension of Islamic banking. Consequently, the aim of this study is to investigate how Shari'ah board (SB) traits impact financial soundness of Islamic banks using the theoretical framework of resource dependence theory. Regression analysis is employed in this study to investigate the impact of Shari'ah board (SB) traits on Islamic banks' financial soundness. The data set of 51 Islamic Banks was taken from seven Asian nations with Muslim population spanning from the period 2016-2021 using a panel data technique. On the other side, to assess the financial stability of Islamic Banks, a z-score metric was employed. This research demonstrates that the existence of a competent Shari'ah member and a mufti has no impact on the stability of the Islamic bank's finances although the size of the board has a significant consequence on the financial stability of Islamic Banks across all the Asian countries.

This research expands the extant literature on Islamic Banking in the context of Asian countries. Regardless of the level of agency engagement, it appears that there has never been a verifiable study that looked at the impact of Shari'ah Board (SB) qualities on Islamic Banks' (IB) achievements. Therefore, the objective of this study, which sets it apart from previous work, is to provide practical evidence to Islamic governance framework bodies and experts regarding the relationships between SB traits and how IBs are presented in the countries with high levels of regulatory agency intervention. The aforementioned study aids the management of Islamic banks in framing the board structure in light of Asian Islamic nations. Furthermore, by issuing the rules on reorganizing the composition of boards, regulators may receive insightful information, particularly those aiming to strengthen the soundness of their Islamic institutions.

Keywords: Shari'ah Board, Financial soundness, Islamic Banks

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1. Introduction

Since the 19th century, the emergence of Shari'ah Governance has been a contemporary concept in many Asian countries as Islamic principles and laws became more influential in their societies (Muneeza & Hassan, 2014). As the Islamic finance industry continues to expand its global reach, Shari'ah Governance has emerged as a crucial driver of progress and innovation. With its emphasis on ethical and socially responsible financial practices, the role of Shari'ah Governance is getting prominent for the future financial industry across the globe. The Islamic Financial Services Board (IFSB) elaborates the governance of Shariah as a collection of structural provisions through which an Islamic financial institution certifies an existence of efficient SB (Khalil, 2021). By monitoring an Islamic bank's actions and issuing fatwas, essential internal control mechanisms are served by SB (Ajili & Bouri, 2018). Moreover, it was mentioned that the Shari'ah Board has the responsibility for Islamic Financial Institutions (IFI) (Buallay, 2019; Nomran et al., 2018). Shari'ah Board (SB) oversees the Shari'ah risk as well as other threats i.e. credit risk, legal risk, liquidity risk and many more that could jeopardize the continued existence of Islamic banks (Haridan et al., 2018; Mansoor et al., 2019). The Shariah authority system, embraced by shareholders of Islamic financial institutions like Islamic banks, is crucial in ensuring compliance with Shariah law and principles. Additionally, the Shariah governance framework encompasses an integral part including Shariah Supervisory Board to provide reassurance to investors that the bank operates within legal bounds. As such, Islamic banks typically have a double board structure with Shariah oversight playing a critical role in governance. This is driven by the necessity of ensuring ethical, socially responsible, and Shariah-compliant financial practices in the Islamic finance industry which draws upon religious, social, economic, legal, and governance resources.

It is stated that when Islamic Banking was developing in Pakistan, it could be related to 1970s when Dubai Islamic Bank had been established besides already existing Kuwait Finance House, Egypt's Faisal Islamic Bank, and the Al-Baraka Bank (El-Gamal, 2007). During this tenure, the industry experienced growth in the total assets about USD 100 billion increase from 2014-2015, and Sukuk Islamic Bonds had also risen about USD 318.5 billion. Adhering to the Shari'ah guidelines is the fundamental aspect of Islamic Banking (Ullah, 2014), and it is

necessary to maintain this compliance to maintain an "Islamic" status. This is a critical factor in making Islamic banks appealing to clients as religion and adherence to Shariah principles are the primary drivers of their popularity. Additionally, adherence to Shariah laws protects the rights and obligations of all stakeholders ensuring fairness and justice in the financial system by eliminating immorality and injustice caused by Riba. Ultimately, following the Shariah rules in banking business facilitates social and financial growth by providing halal means of conducting business.

Therefore, the Shari'ah Council is deemed as a vital aspect of Shariah regulatory structure in Islamic Banking which is responsible for ensuring compliance with Islamic laws and principles. The traditional banking structure is different from that of Islamic Banking due to representation of governance structure of SBs (Bollani & Chmet, 2020; Raman & Bukair, 2013). Stability of the financial system relies upon the organization itself. Raman and Bukair (2013) state the fact that BOD and SB are having overlapping influences on each other given their similar audit responsibilities and governance framework. The arrangement of Shariah regulatory framework and conventional board seem to be similar from the shareholder's theory viewpoint, but it is important to note that the SB is distinct from BOD as it tries to convince that the SB has a major impact of affecting the performance of IBs which fascinates investors and increases the credibility of Islamic Banks (IFSB, 2009). As a result, the SB performs an indispensable role in the advancement of Islamic banks (Khalil, 2021).

If the IBs do not comply with the Shari'ah principles, then accountholders may extract their funds and stakeholders have the right to terminate their investment agreements. This will result in the reduction of effectiveness of financial performance and will increase the risk. In a nut shell, if IBs fail to assure Shari'ah compliance, their market position will suffer due to a lack of client faith (Grassa, 2015). As a result, the performance of IBs is largely dependent on excellent corporate governance which is predicated on the presence of effective SBs (Najwa et al., 2019).

The literature suggests that various variables related to SB attributes may affect its effectiveness. These variables include the size of the board, reputation, cross-relationships, competence, and holding a Doctor of Philosophy (PhD) degree

(Farook et al., 2011; Farook & Lanis, 2007; Raman & Bukair, 2013). Conversely, in the extant research perspective Islamic banking has less of the credible research in assessing the influence of these variables on effectiveness of Islamic banking regardless of the degree of regulatory agency involvement. This study aims to fill this gap through empirical demonstration of the relationships among SB attributes and the efficacy of Islamic banks in the countries with high levels of regulatory agency intervention.

2. Literature Review

Existing Shari'ah-supervised research has mostly neglected the significance of the Shari'ah governance on the performance of Islamic banks (Mollah et al., 2017; Nathan & Ribi re, 2007). Traditional studies have explored the link between Shari'ah board size, cross-membership, education level, and expertise with bank performance (Musibah & Alfattani, 2014; Nathan Garas & Pierce, 2010). However, this study aims to expand the scope by incorporating additional independent variables into the performance criteria.

Compliance with the Shariah rules and regulations is a distinctive element of Shari'ah compliant business organizations. It is also a discerning attribute associated to Islamic banking industry in this context. Practically, different Shari'ah jurists perform the fundamental functions of supervising IB operations. Proponents of Shari'ah Boards argue that the IB board trusts and relies on the in-house board's religious judgments to ensure Shari'ah compliance which leads to positive organizational behavior and improved financial performance. The reliance on SB is important due to the accountability for deciphering Islamic jurisprudence and giving directions to IB for compliance. Additionally, the Shari'ah Board's support provides further assistance to the IB board in maintaining Shari'ah compliance. Quttainah et al. (2013) found that IBs with Shari'ah boards may not engage in financial fraud in comparison to those without. However, opponents of Shari'ah Boards argue that they increase bureaucracy, making it challenging to respond quickly to urgent situations, and thus negatively impacting financial performance (Graiss & Pellegrini, 2006).

Shari'ah followed by Islamic banks has the basic purpose of providing services in accordance with Islamic laws for which abidance of Shari'ah is very significant (Ghayad, 2008). Results indicated by Ahmad and Haron (2002)

enlighten that complying with the Shari'ah is the greatest factor for selecting Islamic banks. The credibility and authenticity of Islamic Banks is assured and attracts shareholders and stakeholder. Though complying with Shari'ah limits some businesses, it also provides great benefits. Literature on Shari'ah governance is limited but still growing. Hasan (2010) investigated about Islamic financial jurisprudence in many countries. He indicates that there is a major difference across borders thus suggesting that there are loopholes in the extant international Shari'ah law. Extensive research is required for improvement. Nathan Garas and Pierce (2010) explored the disparity in view between SB and BOD. He emphasized that this difference is mainly because of the executive members. Quttainah (2012) suggested that earning management depends upon the governance of the Shari'ah Board. Nathan Garas and Pierce (2010) inquired about financial performance and how it is affected by Shari'ah governance. The authors concluded that Shari'ah Governance did not have a notable impact on financial soundness.

Shari'ah Supervisory Board (SSB) is widely recognized as a key source of stakeholders' trust and a potential catalyst for performance and market improvement in Islamic banking (Mollah & Zaman, 2015). However, ineffective Shari'ah boards have been found to increase the likelihood of non-compliance with Islamic Financial Law, which could seriously impact the continuity and sustainability of Islamic bank operations as well as the growth of the Islamic financial structure in general (Grassa & Matoussi, 2014). Therefore, it is imperative for Islamic banks to make sure that their SSBs are effective in fulfilling their roles and responsibilities to maintain the continuity and sustainability of their operations. Mollah and Zaman (2015) discovered that the Shari'ah Board had either a supervisory or advising function. These researchers concluded that while IBs had the previous job, Shari'ah Board had a good effect on their performance, but had a negligible effect when they held the advising post. Mollah and Zaman (2015) have pointed out a difference in the published resources about the impact of SB on IB performance. With this brief overview, it is probable to infer that the Shari'ah board is one of the chief Corporate Governance (CG) structures which improves the Islamic Financial Institutions (IFI) solidity and, as a result, profitability. While the establishment of an SB may contribute to increase monitoring; effectiveness of this CG mechanism may also have an impact on financial soundness.

Although Mollah and Zaman (2015) investigated that the Shari'ah board affects Islamic Bank's performance in a positive way which contributes and supports the Shari'ah authority in Islamic Banking. Another research by Alman (2012) refers to how SB lays its effect on Islamic Banks and its activities. Shari'ah board's ability to make decisions is aided by a comprehension of Shari'ah as well as financial and accounting skills. According to Han et al. (2010), an essential factor that represents the board's quality is their education. As a result, education has got a conducive influence on the banking industry (Han et al., 2010)). Additionally, they bolster banks' competitiveness (Gabrielsson & Huse, 2005). Musibah and Alfattani (2014) assert that highly experienced representatives of Shari'ah board contribute to the organization's increased earnings.

According to Hambrick and Mason (1984), any board member having enough education has the capacity to interact with any new activities in an appropriate way. Board's quality is assessed by the qualification of representatives. That is why the quality of board members is directly linked with the company's performance (Haniffa & Cooke, 2002; To et al., 2010). These members are core resources (Ingley & Van der Walt, 2001). The Mufti is a religious leader tasked with elucidating Shari'ah jurisprudence and analogies. Zepeda (2013) enhances that the Mufti is generally nominated by the administration and possesses specific characteristics (e.g., faithful, honest, understanding, and respectable). Furthermore, (Hassan et al., 2008) claim that the existence of the Mufti enhances the character of the SB and financial instrument's Shari'ah compliance. As a result, a Mufti should be appointed to the Islamic banks' Sharifah committee. (Chihi & Khalil, 2020) analyzed 67 Islamic banks from 2005 to 2014 and found that the Mufti had no effect on IB's financial soundness.

Derived from the principles of resource dependence theory, a number of studies have suggested that interlocking has a favorable impact on the knowledge and reputation of Shari'ah members. Specifically, the research indicates that interlocking can enhance these aspects of organizational performance among members of the Shari'ah community. Nomran et al. (2018) conducted an analysis of 82 Islamic banks from 1993 to 2014 discovering an interlock. Shari'ah representatives mitigate Shari'ah risks and increase bank's

financial performance. Bukair and Rahman (2015) as well as Daly and Frikha (2017) both corroborate this finding. Chihi and Khalil (2020) conducted research on 67 Islamic banks between 2005 and 2014 and found that interlocking among Shari'ah members did not produce a significant impact on the stability of the banks. This result was unexpected as it was anticipated that this variable would have an adverse impact on bank stability. According to contingency theory, inviting or appointing external directors can assist businesses in identifying strategic opportunities and strengthening their relationships with the outside world. External directors also contribute to and protect the firm's survival resources. Contingency theory says that external directors are critical of their advisory and resource-distribution duties, not only of their supervising functions (Forbes & Milliken, 1999; Goodstein et al., 1994; Zaheer & Bell, 2005). Additionally, existing empirical evidence shows that corporate boards which have more external directors have better decision-making techniques and oversights. For example, organizations having greater numbers of external directors are less likely to participate in revenues management (Dechow et al., 1996) or release damaging evidence (Abrahamson & Park, 1994). In essence, when SB has a greater percentage of external members, monitoring, networking, and information sharing may increase. As a result, when Shari'ah boards have a greater number of independent members, IB performance may improve.

The Board of Directors (BOD) affects the company performance (Fama & Jensen, 1983). A board with more members may create conflicts and differences of opinions between directors and managers. Few studies indicate that BOD size is negatively related to the company's performance. However, some other findings put emphasis that large boards have a desirable effect on the firm's performance. With a greater number of directors, more benefits can be enjoyed. Shari'ah governance, on which Islamic banking is founded, is a structure that ensures consistency in business-related operations across all events of Islamic banks. Their relevance is aided by sacred, societal, economic, and legitimate sources. Given the complexities of how Shari'ah boards operate, a constructive relationship between SBs and Islamic bank operation has been established by a number of experts (Almutairi & Quttainah, 2017; Grassa & Matoussi, 2014; Mollah & Zaman, 2015; Nomran et al., 2018). However conflicting discoveries in the literature exist that support small-size Shari'ah boards argue that they are

more efficient in establishing consensus, minimizing agency expenses, increasing relations, and having good management and policy-making (Mollah & Zaman, 2015; Quttainah et al., 2013). Notwithstanding the importance of SB adoption in Islamic banking sector, only a few studies have looked at the impact of Shari'ah board adoption on bank performance and growth. We attempted to discuss the impact of Shari'ah Board (SB) on Islamic banking performance.

2.1 Hypothesis:

H_1 : The presence of an educated and experienced chairman in the Shari'ah board has an impact on the Islamic bank's financial soundness.

H_2 : Islamic bank's financial soundness is affected by the presence of Mufti in the Shari'ah Board.

H_3 : The financial stability of the Islamic bank is affected by the size of the Board.

3. Research Methodology:

3.1 Sample size:

Our sample for this research is composed of Islamic banks observed across the time 2016-2021 covering 7 Asian countries that are shown in Table 1 listed below. The sample set used for this research consisted of 51 Islamic banks with an uneven panel data of 306 observations.

Table 3.1: List of Countries taken for sample

LIST OF COUNTRIES	NO OF ISLAMIC BANKS
Pakistan	5
Bangladesh	10
Bahrain	13
Saudi Arabia	4
Turkey	5
Dubai	6
Malaysia	8

3.2 Data source:

The data for this research is gathered from the annual reports of the banks and from the official site of each bank manually. The World Bank's official website provides the data on both the inflation rate and economic growth rate of gross domestic product.

3.3 Variable Measurement:

Bank's financial soundness (dependent variable) would be defined by:

$$z - score = \frac{ROA + K}{\sigma (ROA)}$$

And,

ROA= Return on assets

K= Total equity/Total assets

$$\sigma(ROA) = \text{Standard deviation of ROA}$$

3.4 Independent Variables:

- Since MUFTI is a binary variable so it would be equal to 1 if it exists and 0 if it doesn't exist.
- The presence of a chairman with a Shari'ah degree or knowledge in Shari'ah would be represented with a binary number 1 and 0 else. (PDS).
- The number of Shari'ah representatives would define the sharia board's size (TCS).

3.5 Control Variables:

- Logarithm of the total assets of the bank is denoted by TB.
- The logarithm of the number of years depicting the existence or establishment of a bank is represented by AB.
- Modele is a binary variable and is considered 1 if the central bank of the respective country has central SB otherwise it would be 0.
- If the Islamic law followed by the bank is a part of the legal structure of the country, then Shari'ah is equal to 1, as it's a binary variable, otherwise it would be 0.
- If the country of the respective bank requires the application of AAOIFI's standard, then the NAAOIFI is equal to 1 as it's a binary variable, otherwise it would be 0.
- PIB represents the economic growth rate of gross domestic product.
- Lastly, TXI represents the rate of inflation.

3.6 Econometric Equation:

$$\begin{aligned} Z - score = & C + \beta_1 MUFTI_{it} + \beta_2 PDS_{it} + \beta_3 TCS_{it} + \beta_4 TB_{it} \\ & + \beta_5 AB_{it} + \beta_6 Modele_{it} + \beta_7 Shariah_{it} + \beta_8 NAAOIFI_{it} + \beta_9 PIB_{it} \\ & + \beta_{10} TXI_{it} + \varepsilon_{it} \end{aligned}$$

4. Results and Discussion:

4.1 Descriptive Statistics

Table 4.1 below shows the descriptive statistics of our governance variable which is the size of the SB denoted by TCS, the mean of the TCS is 9.885621 whereas the minimum number of directors are 3 and a maximum of directors are 21 which is granted by the organization for monetary Assistance and Growth and corporate governance codes for the MENA region. Not only this, preceding findings (Ntim & Soobaroyen, 2013), (Elamer et al., 2020; Mollah & Zaman, 2015) also recommend the same.

Table 4.1: Descriptive Statistics of Governance Variable

Variable	Obs	Mean	Std. Dev.	Min	Max
TCS	306	9.885621	4.035497	3	21

Table 4.2 shows the percentage frequency of the binary variables. The table shows that 29.4118% of the SB consists of MUFTI; whereas, 70.5882% of the SB does not consist of MUFTI. On the other hand, 77.1242% of the chairmen of the SB has knowledge in Shari'ah and 22.8758% has no knowledge in Shari'ah.

Table 4.2: Frequency of the Binary Variable

Variable	MUFTI		PDS	
Frequency %	1 29.4118	0 70.5882	1 77.1242	0 22.8758

Table 4.3 shows the percentage frequency of binary control variables. 82.3529% of MODELE shows that the central bank of the country has a central SB; whereas, 17.6471% shows that the central bank of the country does not consist of a central SB. It shows that 70.5882% of the Islamic banks belong to the countries in which Shari'ah law is the part of Islamic jurisprudence; whereas, 29.5882% of the Islamic banks belong to the countries in which Shari'ah law is not the part of its legal framework. 50.9804% shows that the Islamic bank's country involves the application of AAOIFI's standards and 49.0196% shows that the Islamic bank's country is not obligated to necessitate and adhere to AAOIFI's standard.

Table 4.3: Frequency of Binary Control Variables

Variable	MODELE		SHARIAH		NAAOIFI	
Frequency %	1	0	1	0	1	0
	82.3529	17.6471	70.5882	29.4118	50.9804	49.0196

The descriptive statistics shown in Table 4.4 describe the dependent and control variables. The bank size denoted by TB has a mean of 10.45624 with a lowest value of 7.123329 and a highest of 12.24489. The mean of AB is 1.250974 with a maximum of 1.863323 and a minimum of -0.236572. The gross domestic product rate is depicted by PIB with a mean value of 3.106414 having the lowest value of -6.134501 and the highest value of 8.152684. TXI is the rate of inflation with a mean of 3.565524 having a minimum of -2.317706 and a maximum of 16.33246. Talking about our dependent variable named z-score showing the mean of 0.6231819 having a lowest value of -2.181285 and a highest value of 5.998801.

Table 4.4: Descriptive Statistics of the Dependent Variable and Control Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
TB	306	10.45624	1.050546	7.123329	12.24489
AB	306	1.250974	.3152207	-.236572	1.863323
PIB	306	3.106414	3.562765	-6.134501	8.152684
TXI	306	3.565524	3.958528	-2.317706	16.33246
zscore	306	.6231819	1.114456	-2.181285	5.998801

Table 4.5: Correlation

	Nzscore	MUFTI	PDS	TCS	TB	AB	MODELE	SHARIAH	NAAOIFI	PIB	TXI
Nzscore	1.0000										
MUFTI	-0.2914	1.0000									
PDS	-0.0344	0.3360	1.0000								
TCS	-0.0747	0.4928	0.1348	1.0000							
TB	-0.3734	0.5591	0.3496	0.4107	1.0000						
AB	0.0650	-0.0176	0.0979	0.0363	0.1082	1.0000					
MODELE	-0.1497	0.1639	0.1201	0.0938	-0.1219	0.1738	1.0000				
SHARIAH	0.2930	-0.3853	0.1597	-0.5445	-0.3395	0.2859	0.2725	1.0000			
NAAOIFI	0.1641	-0.2306	-0.0655	-0.3066	-0.4337	0.2023	0.4693	0.6620	1.0000		
PIB	-0.1789	0.3443	0.0063	0.3593	0.2436	-0.1822	0.0919	-0.4791	-0.3350	1.0000	
TXI	-0.2528	0.3644	-0.1685	0.2236	0.3315	-0.2412	-0.4146	-0.6773	-0.3960	0.3979	1.0000

Considering Table 4.5 of all the variables, the pairwise correlations between all of the variables is shown. Stata is used to get correlation between the variables. The coefficient of pairwise correlation is the extent of the tolerance of linear correlation where we ascertain the percentage of correlation between the

dependent and independent variables. This value defines the extent to which the variables move in accordance with each other as a linear arrangement. Considering the above table, we can see that MUFTI, PDS, TCS, TB, MODELE, PIB, and TXI are negatively correlated with Nzscore. Whilst, positive relation could be examined with 6.5% between AB and Nzscore. Also, SHARI'AH and NAAOIFI are also positively correlated with our dependent variable and show the linear strength of 29.3% and 16.4% respectively.

Table 4.6 VIF Values

Variable	VIF	1/VIF
SHARIAH	4.68	0.213761
NAAOIFI	2.88	0.346711
TXI	2.70	0.369740
TCS	1.95	0.513201
MODELE	1.87	0.535792
TB	1.80	0.554775
PIB	1.57	0.635103
PDS	1.37	0.730474
AB	1.23	0.815772
Mean VIF	2.23	

If various independent variables exhibit a stronger correlation with each other, they do not provide a unique result which means there exists multicollinearity between them. Considering the data, there should not be any multicollinearity among the independent variables which means that they should not have linear dependency on each other. If we consider the above table, we can observe the values of variance inflation factor (VIF) are less than 5. It means that all these independent variables are not highly correlated to each other and indicates that there is no multicollinearity.

4.2 Panel Corrected Standard Error:

Table 4.7: Prais-Winsten Regression, Correlated Panels, Corrected Standard Errors (PCSEs)

Nzscore	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
MUFTI	-.153	.152	-1.00	.315	-.451	.145	
PDS	.095	.154	0.62	.535	-.206	.396	
TCS	.053	.023	2.34	.02	.009	.098	**
TB	-.471	.075	-6.26	0	-.619	-.324	***
AB	.142	.395	0.36	.719	-.631	.915	

MODELE	-.99	.221	-4.48	0	-1.423	-.557	***
SHARI'AH	1.019	.387	2.63	.008	.26	1.778	***
NAAOIFI	-.437	.152	-2.88	.004	-.734	-.14	***
PIB	.018	.007	2.76	.006	.005	.031	***
TXI	.004	.011	0.38	.704	-.018	.026	
Constant	5.077	.787	6.45	0	3.533	6.62	***
Mean dependent var	0.623		SD dependent var		1.065		
R-squared	0.420		Number of obs		305		
Chi-square	456.974		Prob > chi2		0.000		
*** $p < .01$, ** $p < .05$, * $p < .1$							

The coefficient of determination is represented by the R square, and it denotes the effect of independent variables on the dependent variable. From the table above, the value of R square in our model is 0.420 which indicates that 42% variable in zscore is justified by its relationship with our independent variables.

If we look at the p values of the independent variables which are TCS, TB, MODELE, SHARI'AH, NAAOIFI and PIB, their values are less than $\alpha=0.05$. Finally, it is concluded that these independent variables have a significant impact on the Islamic bank's financial soundness.

5. Discussion and Findings:

Considering the findings of this study, the results state that the MUFTI is not statistically significant (p -value > 0.1) as seen in the table. As a result, H_2 is not accepted. This signifies that the existence or non-existence of MUFTI has no significant effect on Islamic bank's level of Shari'ah compliance. A likely reason for such conclusion is that Mufti plays the similar job as other Shari'ah representatives and adds no additional value or trait to the Islamic Bank's performance. In addition to this, the members of the SB also have a strong reputation as Muftis. This shows that depositors' decisions to invest in IBs are unaffected by the existence or absence of a Mufti in the board. This conclusion is strengthened by (CHIH & KHALIL, 2020) who claim that the existence of a mufti has no bearing on the IBs financial soundness. These findings are also backed up by the findings of (CHIH & KHALIL, 2020).

The variable PDS does not have a statistical significance ($p\text{-value} > 0.1$) as shown in table. Therefore, the first hypothesis H_1 cannot be supported. Despite this investigation, it indicates that the financial stability of the Islamic financial institution is not influenced by the presence of a Shari'ah-competent chairman; the composition of the SB appears to counterbalance the potential impact of Shari'ah experts having expertise in finance or accounting. In fact, including professional members such as accountants, economists, and directors on the SB may help to supplement the knowledge and skills of the Shari'ah specialists in making sound decisions as noted in prior research (Almutairi & Quttainah, 2017; Haridan et al., 2018; Khalil & Slimene, 2021). Resource dependency theory suggests that a competent Shari'ah representative can provide valuable resources, abilities, and technical knowledge to the SB which can ultimately enhance the quality of decision-making.

The variable TCS is important and has an impact on bank's financial soundness as seen in table. The board size has a significant influence on IB execution and risk; as a result, we accept H_3 . Due to the inadequacy of expertise of IBs in terms of strategy and control in the face of severe competition from conventional banks, a greater number of directors are critical in the Islamic banking business. The findings are endorsed by research (Khalil & Ben Slimene, 2021).

Finally, when it comes to the control variables, measurement linked with the TB variable is considerably negative but significant which means that the bank is following a terrible approach that prevents risk diversification and the development of financial products; so, we accept H_4 . When it comes to the AB variable, it means that the bank's age has no bearing on its soundness. Besides that, the Modèle is statistically significant and has a negative coefficient. This conclusion backs up (CHIH & KHALIL, 2020) study, which found that the central SB does not react to bank needs and issues fatwas that are quite rigid.

The aspect of Shariah principles has a considerable and favorable impact on IBs financial soundness. There are two key explanations for this outcome. The legislative architecture of the country allows Shari'ah law to be pragmatic in an elastic manner, and it is kept up to speed with the financial soundness. The findings support (CHIH & KHALIL, 2020) investigation. The large negative relationship with the NAAOIFI variable and financial stability suggests that the

bank's accountant is unprofessional and that the bank has the funds to use the AAOIFI's criteria properly (El Oud & Amedjar, 2016).

Furthermore, PBI has a major favorable impact on Islamic banks' financial soundness. (Narayan & Phan, 2019; Nguyen, 2021). Additionally, the TXI variable has negligible effect on the Islamic bank's financial soundness as per the results of the study. The findings back up (CHIH & KHALIL, 2020). (Khalil & Ben Slimene, 2021) conducted another investigation that validates the similar findings.

6. Conclusion:

The SB has a key role in the corporate governance structure of an Islamic Bank (Muhamad *et al.* ;2019). Muhamad *et al.* (2019) and Hakimi *et al.* (2018) show in their study that Islamic principles define obligations to the directors. In this regard, the directors of the Islamic bank must abide by the conventional conformance with the Shari'ah jurisprudence and ensure that the Shari'ah corporate governance structure is followed through the scope and environment of the Islamic bank's activities (IFSB, 2006; AAOIFI, 2010). Hakimi *et al.* (2018) and Almutairi and Quttainah (2019) discover the effectiveness of the Board of Directors merely be contingent on how it is composed of, and reflect on the factors which affect its performance in their studies. For this reason, we empirically diagnosed the effect of SB on the Islamic bank's financial soundness. To explore the effect, our sample of 51 Islamic banks covered 7 Asian countries during the period of 2015–2022. We used the PCSE method to prevent the assumption of autocorrelation and heteroscedasticity errors. The results show that the proximity of mufti and a chairman with Shari'ah degree has no effect on Islamic bank's financial soundness, whereas the SB size has an influence on the Islamic bank's financial soundness.

Islamic banks must adhere to Shari'ah law, and they should implement stronger requirements to ensure compliance with it. This will complement the financial soundness of Islamic banks and enhance stakeholder trust in the industry. It is better to revise the Shari'ah ordinances, which can add essence in the effectiveness of SB. Additionally, the Shari'ah authority should alter and enhance their tactics for the betterment of banks, avoid all the bad activities, and have an effective governance of Islamic banks. Concluding the debate, it can be said that Shari'ah Board (SB) attains its importance as a higher body and enhances the Islamic bank's financial soundness. Our paper serves the best to

measure and evaluate the effect of SB on the Islamic bank's financial soundness. Our study also serves its best to fulfill all the disparities in literature by giving relative support. The results prioritize the SB's role and explain the association between SB and financial soundness in the best possible way.

7. Implications:

This study works in every possible way in contributing to the existing studies in. Firstly, this study is synchronized with agency theory and resource dependency theory and follows theoretical fundamentals to traverse the SB attributes and the Islamic bank's financial soundness relationship. Secondly, this study focuses on the unique sight on how the Shari'ah law affects the IBs financial soundness. Thirdly, it empirically evaluates the financial viability of the IBs of Asian countries and fills the gap by demonstrating through observable statistical analysis respectively. And the results show that the SB's role is very effective for the financial stability of Islamic banks. The practical implication follows the functional and convenient evidence for different segments of industry i.e., regulators, banking authorities, academics etc. This study pays essential contribution to the challenge that how SB's characteristics can be implemented to enhance the soundness of Islamic banks. Hence, IBs should consider the research results and apply those measures to assure the SB effectiveness.

8. Limitations and Future Research Directions:

Like all the other studies, this study also has a few limitations. Our main purpose to conduct this study was to explore the SB's impact on the viable financial conditions of Islamic banks. Previous researchers have already served in contributing to literature but there is still room for exploring new avenues. First, the study revolves around the Asian countries only which follow Islamic Shari'ah. Had this study considered the other countries, there might be a chance of different results. Second, this study didn't focus on the other SB characteristics like interlock Shari'ah members, foreign Shari'ah members etc. Not only this, but this study also eliminates the crucial attributes of SB like female Shari'ah members, political members etc. Further, it is recommended to consider other SB's attributes covering the other countries in the future research to get better results about the association between financial soundness and SB.

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