

**Exploring the Nexus between Shariah Supervisory Board and Islamic Banks' Performance:
Moderating Role of Corporate Governance**

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Abstract

The global financial crisis (GFC) from 2007 to 2009 had a significant effect on the performance of the global banking and financial area. The reason for this insolvency and financial disaster was very horrible and the financial world observed this crunch in past. The main reason was corporate governance (CG) weakness and lack of monitoring. Although CG played a role in sustaining the financial performance but was not successful in improving this area further, the present study hypothesizes a mechanism to strengthen and protect a Shariah governance framework and sustainability performance of IB's. Moreover, a careful extent of the Shariah governance (SG) mechanism impacts IB's performance and how the board of directors moderates this relationship. Therefore a careful investigation of the extent of SG literature enables the improvement of exploration context. The current research has extracted a significant framework from influential theories such as agency theory, stewardship theory and stakeholder theory and recognized the association with justifiable performance. The study comprises the independent variable Shariah advisory board (Shariah board size, and Shariah board interlock, Shariah board meetings) and the dependent variable IB's performance (ROA and ROE). The study used ordinary least squares (fixed and random model) for the estimation of the data analysis. The results indicate a significant positive moderating role in the relationship between the Shariah advisory board and IB's performance. This research was conducted to report the demand and requirement for a Shariah governance framework and the moderating role of directors from the IBs. This positive point adds and contributes to the existing body of knowledge. This study is helpful for corporate boards, policymakers, researchers, and practitioners to improve the justifiable procedure.

Key words: Shariah Supervisory board, Islamic banking, Performance, Corporate governance

Introduction

The most powerful element for the sustainable development of the economy of any country is the sound and well-performed financial division (Rashid, Akmal, and Shah, 2023). Therefore, the Holy Prophet Muhammad Sallaho Alahi Wasallam made this effort after the entrance to Madina Munawwara. He made the passion for brotherhood between Muhajir (Immigrants from Makkah) and Ansar (Helpers from Medinah) to strengthen the economic position of his Muslim brothers and for the society's betterment (Akhter, Rafiq, and Akhtar, 2022; Hashmi, and Farooqi, 2018; Saritoprak, 2015). Islamic banks (IB's) in Pakistan are in the primary growth stage. However, a risky and unstable financial condition is continuously predicted to cause of economic and financial loss. In 2018, the volume of Islamic banks was very low. Only a small portion of IB's growth was possible, that was only 1.04% of the growth (SBP, 2019). Thus, the improvement and growth of the economy and strong financial position need an effective governance mechanism. This advanced governance framework increases the profitability of the financial institutions of Pakistan. The Islamic banking governing authority and management is known as the Shariah Advisory Committee (SAC). The SAC perform its duties under the Islamic banking department, State Bank of Pakistan (Wasim, Bin, and Farooq, 2021). This Shariah mechanism is the Shariah governance framework (SGF), which was introduced in 2015 under the Islamic laws and rules. To run the best practices of SGF, the SBP issued a new version which contained advanced policies and guidelines (Ayub, Hassan, and Saba, 2023). Due to the best practices of SGF, the IB's performance in Pakistan increases and going towards upside. The well-performed operations and supervision of Shariah advisory committee controlled the chance of corruption and bankruptcy. Consequently, the performance of IBs enhances (Alam, Rahman, Runy, Adedeji, and Hassan, 2022).

After the GFC, several European countries were so impressed that a very short and small impact on Islamic banks all over the world. But Interest-based conventional banks were insolvent and several Conventional financial institutions were going towards bankruptcy (Smaoui, Mimouni, Miniaoui, and Temimi, 2020). Therefore, these countries have also taken a step to begin Islamic banking in their countries like the USA, UK, Australia and European, Asian, and African countries. The history of Islamic baking of Pakistan is much older when Pakistan came into being. The first inauguration ceremony of the State Bank of Pakistan was held in Karachi on 1st July 1948. In this ceremony, the founder of Pakistan Quaid-e- Azam Muhammad Ali Jinnah (R.A.) introduced Islamic banking and said that our financial system will be based on the Shariah guidelines and principles (Ghutai, and Bahari, 2020). He strongly denied the Western economic system such as capitalism and communism. But unfortunately, after his death, no one was able to implement the Islamic economic system. Therefore, Interest banking which was also functional before the independence of Pakistan, operated in all the cities of Pakistan. Islamic financial Institutions guidelines and instructions has been derived from the Shariah which is the combination of Holy Quran and Sunnah. Consequently, in IB, there is complete restriction on any non-Islamic, unethical and illegal transactions and activities (Cheema, and Akram, 2023). The principles and guidelines of IFI has been taken from Quran and Sunnah. Hence, there are some restrictions on any liberal, atheist ideology, unethical and illegal transaction and matters (Ashraf, Yazid, and Remli, 2021).

Islamic banking started in Pakistan in the 1980s, during the President Zia-ul-Haq government. This government implemented several laws according to the Shariah. One of the best

steps was taken to implement the start the Islamization in the economy of Pakistan. The government of Pakistan has also initiated several institutions and schemes to implement an interest-free system in different phases of its banking sector development (Abbas, Hammad, Elshahat, and Azid, 2015). The prime bank based on Islamic transactions was commercial bank in started operations in 1981 (Huda, Aktar, and Islam, 2020). In this regard, some Islamic mode of finance was also introduced such as Modarba term certificates. The Securities Exchange Commission of Pakistan is the regulatory body to control and regulate the Modarba and other Islamic modes (Ayub, 2021). These primary undertakings marked the commencement of Islamic banking in Pakistan. Moreover, for short-term financing, the prime regulatory body in Pakistan is SBP. The SBP acquired positive actions to establish a governing mechanism for Islamic banking (Anwer, Khan, and Abu Bakar, 2020). There are 22 Islamic banks that are operating all over Pakistan, of which five banks are full-fledged Islamic banks. This bank strictly follows the Shariah guidelines and instructions issued by the Islamic banking department of SBP (Fatmawati, Ariffin, Abidin, and Osman, 2022). According to the Shariah governance framework, it is mandatory for every Islamic bank to establish a Shariah board comprising 3 expert Shariah scholars. The Shariah scholars hold knowledge of financial management and business finance (Ahmad, Muneeza, Rahman, and Mahomed, 2023).

In 1991, Pakistan's largest Shariah legislative body Federal Shariah Court issued a decision to stop interest-based banking and transactions all over Pakistan. But this decision was challenged in 2001 and the Federal government got a stay order from the Supreme Court of Pakistan (SCP) (Said, Bilal, Aziz, Gul, Shabbir, Zamir, and Abro, 2022). Later on, in 2002, Meezan Investment Trust started an Islamic mode of finance, which after that got the license of the first complete Islamic bank from SBP and also started Islamic banking in 2002 (Sharif, Ahson, and Noor, 2020). Several Islamic banks started Shariah banking according to the Shariah principles and guidelines issued by SBP. Conventional banks also jumped into the field of Islamic finance and started Islamic banking windows set with conventional banking followed by the decision of SCP (Ali, 2020).

Shariah Governance Framework

Various factors cover Islamic banking and their impact on its performance such as regulatory, economic and market factors. The growth of IBs in the first decade was steady. At the end of 2010s, IBs' volume was only 17%. Therefore, the new products and services were introduced (Cihak, and Hesse, 2010). These modes of Islamic finance were increasing the requirement of Shariah-compliant financial solutions. Shariah governance framework provides all the guidelines and principles vide SBP's IBD Circular No. 2 of 2008 to Islamic banks and IBs' (Nasir, and Sharif, 2022). According to the SGF 2015, a principal Shariah advisory committee (SAC) consist of a resident Shariah board member (RSBM), BoD, executive management (EM) a Shariah board member (SB) in every IB, Shariah auditor (SA), Shariah review officer (Minhas, 2023). Moreover, the SAC also cover other departments such as liquidity management, risk management and employee's staff for business growth (Alam, 2022).

Shariah Governance

The key determinants for a better decision-making process for IBs' are confidence and trust. These factors strongly follow the rules of Shariah (Ashraf, Remli and bakar, 2022). Islamic bank's performance increases due to the Shariah advisory committee characteristics and its best practices.

In this regard, the SAC characteristics significantly upgrade the growth and interest of IBs. Thus, it's mandatory for IBs' to provide efficient and effective Shariah monitoring and financial expertise members since the weakness in this way impacts the weak performance of IBs' (Muhamad, Zain, Samad, Rahman and Yasoa 2022). Failure to do so and not adhere the Shariah standards and laws, then the financiers and stakeholders pullout the investment from the IBs'. Hence the performance of the IB's going towards down. Moreover, the lack of management interest and intention have harm the IB's performance (Tashkandi, 2023).

The investigation of SSB and performance of IBs with moderating role is an answerable question, which is mandatory to answer it. The moderating role between the relationship of independent (Shariah supervisory board) and dependent (Islamic banks performance) study suggest strength or weakness of relationship. The uniqueness of this study is to find the determinants of directors as moderating role that affect IB's performance. The economic condition of Pakistan is going towards fall due to the world economic situation. The volume of Islamic banking growth is deficient i.e. in 2017 IBs rate of growth was only 1.04% (Simiyu, 2021). The role of Islamic banks plays a vital role in enhancing the financial position of the country (Ledhem, and Mekidiche, 2020).

The reason behind the weakness and lack of economic condition is controlling function and framework. Islamic banks operate under the Shariah governance mechanism. Global financial crises (2007-2009) impacted the performance of the banks. This is due to weakness in corporate governance and a lack of risk management (Ayadi, Ayadi, and Trabelsi, 2019). Therefore, the same condition is faced by the Pakistani banking industry. Therefore, there is a need for a proper Shariah governance mechanism and a fair framework of corporate governance. Because dedicated and committed board members' performance and responsibilities have a better effect on Islamic banking performance. The research objectives of the study are given below: The Shariah supervisory board significant effect on Islamic bank's performance in Pakistan. The board of directors have a significantly moderate the relationship between Shariah supervisory board and Islamic bank's performance in Pakistan.

Shariah Advisory Board and Performance of Islamic Banks

Various literature spreads the association between corporate governance and performance in interest-based banking. In CG several variables have been discussed in studies such as board size, meetings, financial qualification, and independence (Rashid, 2018). However, the literature on the Shariah governance mechanism covers only a small part particularly the relationship between SSB and IBs' performance (Nomran, Haron, and Hassan, 2018). There are some differences between the mechanism and regulatory framework of Shariah governance. So, solving the issue and answering the raised questions is compulsory in the form of an examination and exploring the relationship between SBB and IBs' performance. The term financial performance is used to measuring and considering the banking activities and operations in the financial form. Financial performance shows the overall profitability position of the banks (Ashraf, Yazid, 2021).

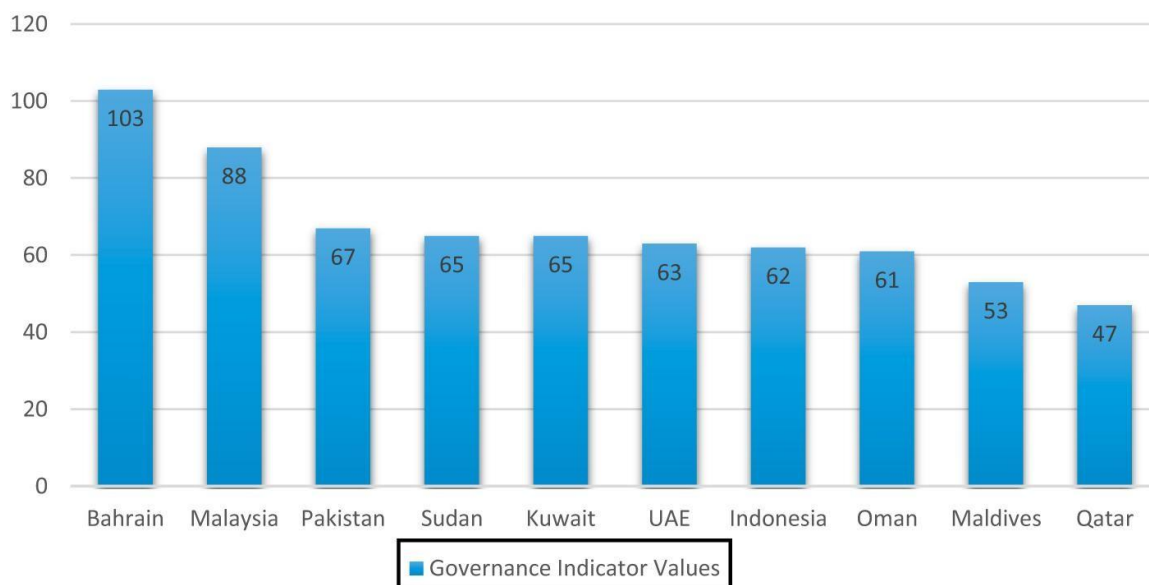


Figure 1: Shariah Governance World rankings of Muslim Countries (Ashraf, Remli, and Bakar, 2022)

Figure 1 shows the governance indicator values of the Islamic countries. The main purpose of the Shariah board is to follow and implement the Shariah rules and regulations of Islamic finance institutions. Several studies have been undertaken on the relationship between the SSB and IBs' performance (Ashraf, Shukri and Remli, 2022; Alam, Rahman, Tabash, Thakur, and Hosen, 2019 Hasan, 2011). Most studies empathized with the Shariah governance mechanism and activities adopted by various countries. There are some elements that impact the CG and BoD will also affect the Shariah board because of the same activities and responsibilities. The IB's performance in Pakistan has mostly been competitive with conventional banks. It's worth noting that the profitability of Islamic banks can sometimes be affected by the availability of Shariah-compliant investment opportunities.

The factors that help in attracting potential financiers, thereby improving the efficiency, productivity, and finally the IBs performance. There is a strong relationship between SBB and IBs performance. Better performance depends upon the better decisions and actions taken by the SBB. Therefore, the key role responsibility of the SBB is to issue the final suggestions and in this case, the BoD have no other option and decision. Hence, the SBB can criticize and reject matters and transactions that are opposite to Islamic laws and regulations. The SBB decisions have a great impact on the performance of IBs' and no one is able to contempt or deny the judgments done by SSB. A study was conducted to examine the impact of SSB on the IBs' performance over the period between 2005 and 2011. For data estimation, several techniques were used in the research such as GMM, three-stage least square (3SLS) and GLS. The results suggested that SSB directly effect the IBs' performance. Moreover, the SSB safe the stakeholder's concentration and effect the performance (Mollah and Zaman, 2015). The same findings were also obtained for Malaysia by Nomran, Haron, and Hassan, (2018) and for Pakistan by Hassan et al., (2017).

Shariah Advisory Committee Size

The literature has been distributed on the impact of SAC on the profitability of the IBs'. In this regard, Bahrain Islamic bank's performance effected by the Shariah board is based on a case study.

The study indicates the experience, qualification and financial expertise of advanced banking activities and confirms the Shariah compliance and better monitoring and quality supervision to increase the IBs performance (R). The duties and responsibilities of SAC are similar in different regions of the world but include the altered nature of members. Mainly, SAC has two key responsibilities. Primarily the monitory and supervisory role and secondly to run the concealing and advising activities (Charles and Chariri, 2012).

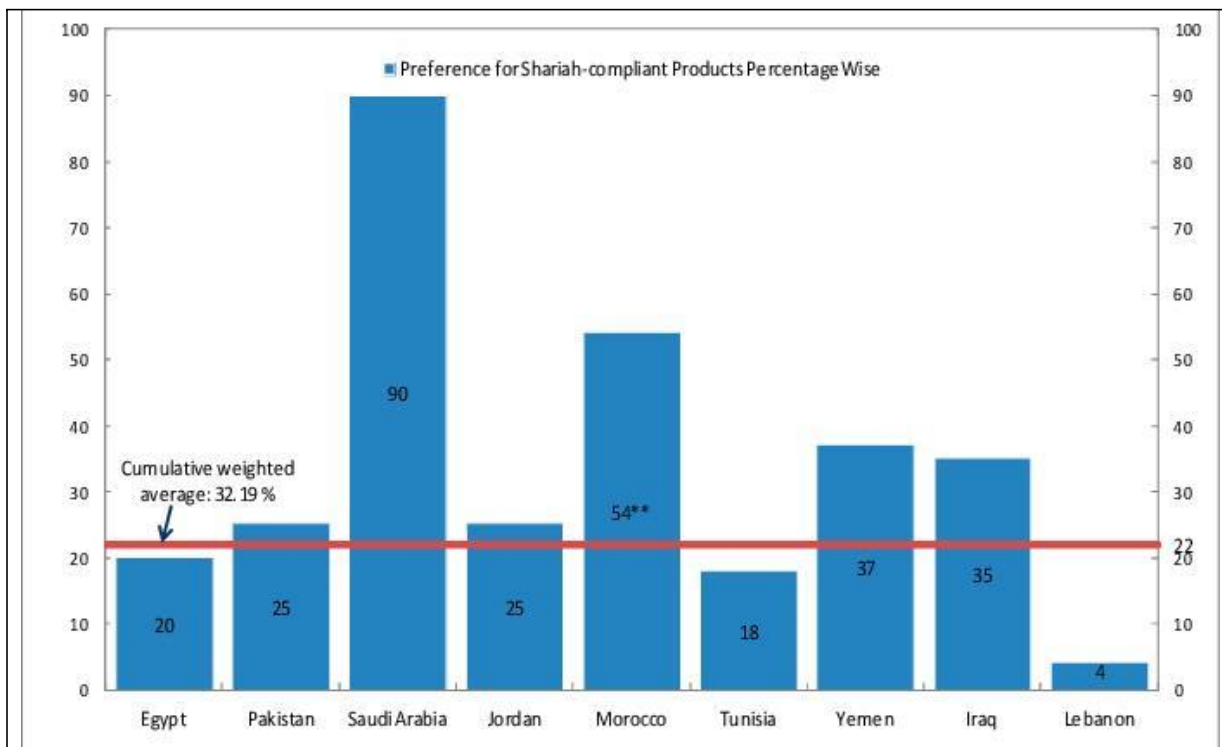


Figure 2: Preference of Shariah compliant percentage (Naceur, Barajas, and Massara, 2015). In Figure 2, Pakistan fall in under the average level, this shows the medium Shariah governance performance (Naceur, Barajas, and Massara, 2015). Sharia governance and the board of directors are connected with each other as they equally perform a role in realizing the performance of IBs’ (Prasojo, 2022). The basic responsibility of the SAC is to confirmation of Shariah compliance in IBs’ (Nawaz, 2017). This function increases the growth and performance of the IBs’ (Nawaz, 2019). Another study of Bahrain IBs’ demonstrates the relationship between SAC, BoD and IBs’ during the period from 2005-2011. The author explored that SAC has a significant positive impact on the performance of IBs’, while at the same time duration, the shows a negative performance between financial expertise and IB’s performance (Hakimi, 2018). The study of GCC countries also points out the positive performance on the relationship between SAC meetings and IBs performance during 2013-2017 (Musleh Alsartawi, 2019).

In CG, the variable board independence plays a vital role in moderation. In the USA, a study was conducted to examine the relationship between independence and CG. The study findings suggested that board independence has a strong relationship with CG. The same study results are found in the literature and research conducted by Hambrick and

Jackson (2000) in terms of board independence. The findings recommended that independence has a positive correlation with performance. Upper echelons theory states that a qualified administration team is connected with a high tendency for strategic management and dispensation of information (R).

H1. Shariah's supervisory board size has positively effected IBs' performance.

H1a. Board of directors moderates the relationship between Shariah supervisory board size and IBs' performance.

Shariah Supervisory Board Interlock and Performance

A study explores the relationship between SSB and IBs performance for the duration 2000 to 2009. The study consists of several variables such as SBB size, Shariah scholar's finance knowledge, and bank age. These variables are also connected with CEOs and directors. The SBB interlock indicates a negative significant effect on IBs' performance. The study found that no effect of SBB women's gender on the performance of IBs'. It has been included that IBs' in GCC countries and Southeast Asian CG characteristics are diverse (Haroon and Norman, 2020). A study was conducted to examine the impact of Shariah board features on IBs' profitability. The study sample consists of eighty-two (82) banks from fifteen (15) countries all over the world for the duration 1993 to 2014. The study concluded that the combination of the Shariah board with IBs' governance mechanism expands critical decision and application. It also delivers a direction to managers, directors, employees etc. Moreover, the Board of Shariah characteristics are connected with superior performance (Almutairi and Quttainah, 2017). A study on the relationship between SBB characteristics and the performance of IBs' in Malaysia shows the application of the pro-active model. The study comprised 15 Malaysian IBs as a sample over the period 2008 to 2015. The study used the GMM model for the data analysis. The findings suggested that there is a significant positive relationship between SBB qualification, size and IBs performance. Moreover, the study shows that the cross-membership of SSB plays a vital role and indicates that the IBs performance going towards improving and increasing Nomran, Haron, and Hassan, (2018)

According to the above Literature

H2. Shariah supervisory board interlock has positively affected IBs' performance.

H2a. Board of directors moderates the relationship between the Shariah supervisory board interlock and IBs' performance.

Shariah Supervisory Board Qualification and Performance

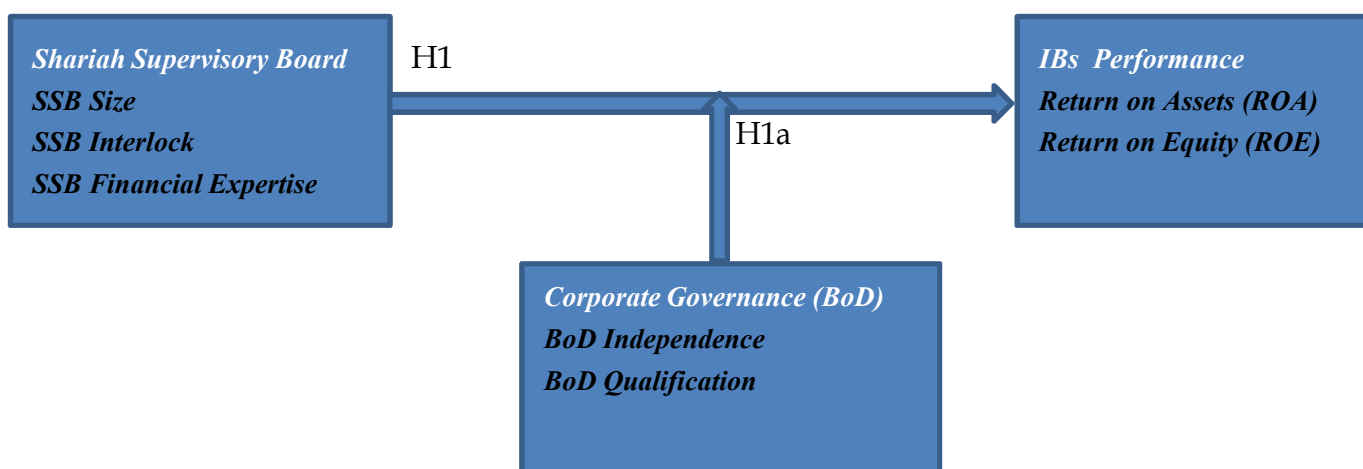
The important feature and quality of the Shariah scholars is the competency in Shariah knowledge with financial qualification and expertise. The combination of the hybrid knowledge is supportive during the playing of multiple roles i.e. consultation and supervision at a time. The role of supervision consists of the sanctioning of advanced services and products, issuing legal announcements (Shariah fatwa) and auditing of financial statements. , the consultation consists of several roles such as solution of Shariah compliance products, zakat calculation and arrangement of seminar and workshop training to the administration for the awareness the Islamic jurisprudence. The impact of Shariah board qualification has a positive effect on IBs performance (Nomran, Haron, and Hassan, 2018). From the risk-taking point of the study, the SBB qualification and knowledge, legal issues and matters, Shariah laws play a vital role in the performance of the IBs' decision-making (Kismawadi, 2023).

According to the above literature

H3. Shariah supervisory board financial qualification has positively affected IBs’ performance.

H3a. Board of directors moderates the relationship between the Shariah supervisory board's financial qualification and IBs’ performance.

Conceptual Framework



Research Methodology

Generally, two methods two are used in research, qualitative research and qualitative research. The current study used a quantitative method, as this method is classically focused on mathematical information, units, numbers, and statistical figures. To find out the results, the statistical data is helpful to the experts. By incorporating professional association reports, journals, articles, and other secondary sources in addition to books and websites, the secondary data is used to accomplish the study's goals and objectives and complete the theoretical framework. The daily reports, balance sheets, and income statements are made public on the websites of the Islamic Bank as the sources of the data used in studies.

Sample selection

The data type consists of secondary data. The study collected data from a sample of 5 full-fledged Pakistani IBs listed in the Pakistan Stock Exchange (PSX) over the period of 10 years from 2011 to 2020. The data consists of financial reports that are taken from the IBs websites and data stream software. To examine the relationship between SBB and IBs’, a multiple linear regression model has developed. The study included three main variables such as independent variable, dependent variable and moderating variable. The independent variable consists of three variables Shariah board size, financial expertise and SBB interlock while IBs performance comprises return on assets (ROA) and return on equity (ROE). ROA is a suitable measure for determining the performance of banks. The moderating variable (CG) have three proxies board meetings, independence and audit committee. Some proxies were used as control variables such as bank size, Hadriche, 2015) bank age, (Majumdar, 1997), and leverage Beltratti and Paladino, 2015).

Model Development

To explain the linear relationship between SSB and IB’s performance, there are two models. Model 1 consists of the SSB proxies used to explain.

Determinants of Performance (Independent Variables)

The model contains the whole variables Shariah advisory board attributes used to explain the linear relationship between Shariah advisory attributes and IB’s performance.

Model 1:

$$ROA = \beta_0 + \beta_1(SBBS) + \beta_2(SBBIL) + \beta_3(SSBFE) + \beta_4(BI) + \beta_5(BQ) + \beta_6(SSBS * BI) + \beta_7(SSBIL * BI) + \beta_8(SSBFE * BI) + \beta_9(SSBS * BQ) + \beta_{10}(SBBIL * BQ) + \beta_{11}(SSBFE * BQ) + \beta_{12}BANKSIZE + \beta_{13}BANKAGE + \beta_{14}LEV + \epsilon_{it}$$

Moreover, this study made examined the moderating effects of the director’s role on therelationship between Shariah advisory board and IB’s performance by using regression.

Model 2:

$$ROE = \beta_0 + \beta_1(SBBS) + \beta_2(SBBIL) + \beta_3(SSBFE) + \beta_4(BI) + \beta_5(BQ) + \beta_6(SSBS * BI) + \beta_7(SSBIL * BI) + \beta_8(SSBFE * BI) + \beta_9(SSBS * BQ) + \beta_{10}(SBBIL * BQ) + \beta_{11}(SSBFE * BQ) + \beta_{12}BANKSIZE + \beta_{13}BANKAGE + \beta_{14}LEV + \epsilon_{it}$$

Where:

- SSBS= Shariah Supervisory Board Size
- SBBIL= Shariah Supervisory Board Inter Lock
- SSBFE= Shariah Supervisory Board Financial Expertise
- BI= Board independence
- BQ= Board qualification
- LEV= Leverage
- ROA=Return on Assets
- ROE =Return on Equity

Measurement of Variables Table 1

Variables	Variable Proxies	Character
Shariah Supervisory Board		
Shariah Board Size	Percentage of the busy board of directors	SSBS
Shariah Board Interlock	The no. of Shariah board members	SSBI
Shariah Board Financial Expertise	The no. of individuals who are experienced in financial Expertise	SSBFE
Islamic Banks Performance		
Return on Assets (ROA)	Return on Assets = $\frac{\text{Net income (After tax)}}{\text{Total assets (bank)}}$	ROA
Return on Equity (ROE)	Return on Equity = $\frac{\text{Net income (After tax)}}{\text{Shareholders' equity}}$	ROE
Corporate Governance		
Board Independence	The proportion of non-executive directors to total directors	BI

Board Qualification	The proportion of directors who have master’s degrees	BQ
Control Variables		
Bank age	Years of banks founding	Bank age
Bank Size	Natural logarithm of Total Assets	Bank Size
Leverage	Lev= Total liabilities/ Total Assets	Lev

Data Analysis

The data analysis part of the study is given as

Descriptive Statistics

The given table 2 shows the study statistics of variables as mean, standard deviation, minimum, maximum.

Testing regression assumptions

The study conducted some key test to verify the regression assumptions of normality and multicollinearity. The table 3 indicates the Pearson correlation consist on the relationship between independent and dependent variables. Table 3 presents that ROA shows a high value of correlation. As no correlation value is more than 0.8, therefore it is expected that no issue of multicollinearity occur. Table IV indicates the estimation results of normality test in the form of Skewness and Kurtosis. The findings proposed that entire variables (predictive) are normally distributed. Moreover, to check the auto correlation test, another test known as Durbin-Watson test was conducted. In this test the value should be less than 2, this value shows the positive correlation.

Regression Results and Interpretation

The results are the main part of the analysis, as it is the outcomes and findings of the study. Results sections informs the image and reality of the study. It represents a clear picture of the literature. The procedure of converting fresh data into an interpretable and a clear arrangement contains sorting, reordering, and altering data to deliver appropriate figures regarding the provided data. The interpretation of the results deliver determination of data. Moreover, it supports to contribute significance in the body of the knowledge and perceives the misfits and errors.

The descriptive analysis is the primary part of the result section. This table shows the descriptive analysis of the full-fledged IBs listed in PSX. The data type is quantitative and it has been collected from the annual reports and data stream software, over the period of 10 years from 2011-2020. There are three types of variables utilized in the study. The independent variable comprises SSB size, SSB interlock and SSB financial expertise. While dependent variable consist ROA and ROE. Moreover, the moderating and control variable are also part of the study. Moderating variable is the corporate governance that contain two proxies (BoD size and independence). To run the analysis for the variables, the descriptive statistics are calculated and figured. It is emphasizing the mean, standard deviation, minimum, and maximum.

Descriptive Statistics Table 2

Variables	Mean	Std. Dev.	Min	Max
ROA	0.8309	0.7535	0.06	2.96
ROE	0.1146	0.0935	0.0062	0.3486
SSBS	0.5421	0.2229	0.25	1

SSBIL	0.3664	0.1020	0.25	0.6667
SSBFE	3.0727	1.3451	1	6
BQual	0.8210	0.1477	0.5	1
BI	0.4158	0.2032	0.1	0.8333
Lev	0.9193	0.0278	0.8553	0.957
Bank Size	7.8543	0.6740	6.0845	8.9014
Bank Age	31	21.6923	6	73

The value of dependent variable based on the 55 observations, the ROA indicates 0.83 with a minimum of 0.06 and maximum of 2.96, and SD 0.7535. While ROE shows 0.11 with a minimum of 0.0062 and maximum of 0.3486. The value of independent variable based on the 55 observations, the SSBS indicates 0.83 with a minimum of 0.06 and maximum of 2.96, and SD 0.7535. The moderating variable Board qualification shows 0.5 with a minimum of 0.5, maximum of 0.82 and SD 0.14. To estimate and assess the direction and strength of examined variables, the test of correlation is used. The correlation method is used to expose the sole connection among the study variables, as a robust relationship recommended that for a suitable association, there is demand of minimum of two factors, while it indicates a feed able relationship between unrelated factors. The correlation table indicates the significance of the study and moderating relationship of CG between SSB and IBs; performance.

Pearson Correlation Table 3

Variables	ROA	ROE	SSBS	SSBIL	SSBFE	BQual	BI	Lev	Bank Size	Bank Age
ROA	1.000									
ROE	0.7909	1.000								
SSBS	0.2529	0.0398	1.000							
SSBIL	0.2362	0.1215	0.4184	1.000						
SSBFE	-0.2651	0.0105	-0.4911	-0.3598	1.000					
BQual	0.2751	0.3118	0.2025	0.4135	-0.0792	1.000				
BI	0.1844	-0.1011	0.1910	-0.2922	-0.2078	-0.1212	1.000			
Lev	-0.4830	0.0627	-0.4848	-0.3436	0.4864	-0.0808	-0.4263	1.000		

Bank Size 0.2615 0.1169 -0.0045 0.1591 -0.0599 0.1199 -0.2103 -0.2322 1.000

Bank 0.3828 -0.0355 0.2992 0.2616 -0.3180 0.2162 0.3634 -0.7762 0.6288 1.000
 Age

The purpose of correlation test is to estimate the strangeness and direction of the examined variables' relation. The correlation matrix indicate the single connection between the study variables. The above table 3 indicates the coefficient of correlation. There is no thoughtful multicollinearity problem when the correlation coefficient is lower than 0.8000 (Kennedy, 1998). Hence, there is no issue of multicollinearity. In the table, it demonstrates that the Shariah supervisory board size and interlock significantly correlates with financial profitability (ROA and ROE). While Shariah's financial expertise negatively correlated with performance. Moreover, board qualification, as moderating shows a positive correlation, while independence indicates a negative correlation. The control variables such as leverage, bank size, and bank age have a negative correlation.

Hausman test

The purpose of the Hausman formula distribution of the samples controls the variance in the statement based on the null hypothesis. This test is analogous to the statistical importance computed from his investigational group. According to the results of the Hausman results where the p-value is less than 0.05, it means that fixed effect model is appropriate for this data.

OLS Regression

Table 4

Variables	ROA		ROE	
	Coefficient	P-value	Coefficient	P-value
SSBS	0.3439	0.000	0.0219	0.539
SSBIL	0.7864	0.053	-0.1443	0.040
SSBFE	-2.1450	0.001	0.0366	0.000
BQ	1.1472	0.023	0.0061	0.993

BI	0.2930	0.508	-0.0374	0.490
Levg	-19.1926	0.000	0.8743	0.078
Bank Size	0.0945	0.460	0.0921	0.533
Bank Age	-.0925	0.646	0.2402	0.765
No. of observations	55		55	
R2	0.7716			

Note: The overhead table indicates the regression results. **ROA** is known as return on assets it can be measures as net income over total assets **ROE** is return on Equity, it can be measured by net income over total shareholders’ Equity. **SSBS** is the Shariah Supervisory Board Size, **SSBIL** is the Shariah Supervisory Board Inter Lock, **SSBFE** is the Shariah Supervisory Board Financial Expertise, **BQ** is the Board of director’s qualifications, **BI** is the Board of director’s independence, **Lev** is the Leverage of IBs, **Bank size** is the natural logarithm of assets, **Bank age** is the age of bank in time t since incorporation.

The results indicate that in the case of ROA, the SSB size coefficient 0.3439 with a p-value of 0.000 indicates a strong significant relationship between Shariah governance and IBs performance with a positive moderating role of BoD. The same results have also been reported by the SSB interlock coefficient which is 0.053. At the same time, SSB financial expertise has an indirect effect on IBS performance with a p-value of 0.023. While, on the other side, in the case of ROE the SSB size coefficient 0.0219 with a p-value of 0.519 indicates an insignificant relationship between Shariah governance and IBs performance with a positive moderating role of BoD.

However, SSB interlock shows a positive impact on IBs performance. The SSBFE indicates a positive influence in the case of ROE, i.e. the p-value is 0.000. Overall results of Shariah governance characteristics have a positive role on IBs performance. The results report by AlAbbad, Hassan, & Saba, (2019) also support our findings that Shariah board interlock positively effect IBs and expands their performance. The study conducted by Alman (2012) also reveals that SSB interlock influences on IBs performance positively. The study exposes that expert Shariah scholars with busy boards or various memberships have board mandates. The board moderation findings have reported mixed results. The coefficient of board qualification represents positive significance moderation while board independence shows indirect moderation on the relationship between

Shariah governance characteristics and IBs performance.

Heteroskedasticity

In the statistical data the Heteroskedasticity appears in case of SD of a regression model are non-constant. It can be identified due to inconsistent criteria of independent variable. To check the heteroscedasticity for of all models, the Breusch–Pagan test was run (Gujarati and Porter 2012). Table 3 shows the results of the Breusch–Pagan test. The table indicates that the value of probability in the model is greater than 0.05, which demonstrates that there is no chance of heteroscedasticity.

Conclusion

The key aim of the current study is to deliver expert facts about the Shariah governance and the moderating role of CG (board independence and qualification) that impact on the IBs performance. The study also includes the aim that how the performance of the IBs can be improved by delivering an explanation that which factors increase and decrease the IBs profitability. The area of the current research is Pakistan and the researcher adopted an inductive approach to get the objectives of the study. The sample size of the study was 5 full fledge Islamic banks located in Pakistan and operated under the supervision of the Shariah scholars. The study explains the moderating role of the CG on the relationship between Shariah board members and IBs performance. The study revealed that due to the moderating role of board independence, the character of Shariah scholars interlock negatively influences performance. Several studies explore a positive relationship between Shariah interlock and IBs performance. So this study suggested that Shariah scholars' supervision, monitoring and expert opinion greatly influence the profitability of the IBs. But board independence, the Shariah board indicates the indirect impact on the IBs performance. According to the Shariah governance framework, the basic purpose of the SSB is to confirm the compliance of products with Shariah guidelines and instructions. Moreover, the current study reflects both multiple governance mechanisms i.e. conventional corporate governance and Islamic corporate governance. Thus, the impact on the IBs performance from multiple governance frameworks delivers a unique outlook. The shareholders are part of the independent penal, therefore they have the right to assign Shariah experts. The Shariah scholars have a good knowledge of both sides, i.e. Shariah and financial economics. Similarly, they perform multiple responsibilities such as

supervisory and consultative.

SSB board articulates the banking management and strategic policies that is constructed on the Shariah rules and regulations (Alam, Rahman, Tabash, Thakur, and Hosen, 2021). Therefore, the best way of Shariah governance in IBs is the Shariah board (Alam, Rahman, Runy, Adedeji, and Hassan, 2022). This board improve a complete framework that ensures compliance and monitors the IBs matters and transactions to upgrade the soundness of the IBs (SGF, 2018). This obligation is supportive of improving the performance of the IBs (Nomran and Haron, 2020). However, SSB faces several kinds of issues and challenges regarding the shareholder's satisfaction and needs. This condition helps to prepare a comprehensive governance mechanism according to the Shariah and this contribution from SSB will enhance the IBs profitability. The current study makes a value addition in Shariah governance awareness but several factors and variables influence a negative effect on IBs performance in the presence of the BoD independence and qualification. Therefore, the findings highlight the large size of expert SSBs with hybrid knowledge and high-profile personalities upgrade the soundness of IBs. Furthermore, the study also concluded that SSB interlock negatively impacts on IBs' performance. The current research added a significant contribution to the IBs body of knowledge in terms of best Shariah governance practices. Before, this study only limited study was conducted to examine the role of CG in Pakistan background, nevertheless, to the best of the researcher's information, this study is the first study that broadly explores the moderating role of CG on the relationship between SSB and IBs profitability.

Limitations and Recommendations

We answered the commendations that there is a great essential requirement for advanced strategies to enable development efficiency in the Pakistani industry. We responded to the recommendation offered by the researcher (Mollah and Zaman, 2015) that experimental research regarding SSB and IBs performance is inadequate. We proposed that the previous literature does not appropriately express the relationship between SSB and IBs performance. Last but not least we replied to the recommendations delivered by Alam, Rahman, Tabash, Thakur, and Hosen, (2021); Nomran and Haron (2020); and Saba (2019) that the literature on the SG framework suggested diversified findings with transformed control. Pakistan face challenges from an economic point of

view (Sultan and Mohamed, (2023). Because the competitors are interest-based banks, adopting a well-attractive advisory board under Shariah supervision is necessary to emphasize and sustain with a major shareholders group. The limitation of the study are mentioned in this research. The study exploring the moderating role of corporate governance as well as evidence symmetry in the association between Shariah supervisory board and Islamic banks performance. In concluded, the study emphasis on the Islamic banks performance in Pakistan. Hence, the study advises for future research that to explore the moderating role of corporate governance of the Islamic banks in Asia.

Research Findings

Every study's findings contribute to the body of knowledge. In the current study, the SSB significantly influence the IBs performance by using various determinants. Moreover, the main effect that is emphasized in this study is the moderation of the CG. Because board independence and qualification have a significant positive moderation on the relationship between SSB and IBs performance. The results suggested that Shariah board size has played a vital role in increasing the IBs performance. Additionally, the moderating role of the director's qualification upgrades the profitability. Board independence also boosts performance. It has been exposed that board size has a direct effect on IBs' profitability. However, board size should be suitable; it should be composed of qualified individuals with proper supervisory responsibilities and banking practices knowledge. Additionally, there should always be a balance of executive and non-executive directors on the Board. Islamic bank's success is also impacted by bank size.

Practical Implications

IBs performance has been influenced by various elements of governance. The current research provides a unique solution in the shape of moderating the relationship between the directors and performance and that's why this is a pioneer study in its status. The overall results indicate that Shariah board characteristics align with the Shariah principles. Islamic banks are stimulated to improve advanced monetary products and services which adhere to Islamic law and principles. In light of AAOIFI standards, the Shariah governance application also strengthens the affiliation between Shariah scholars and Islamic banks. Resultantly, the performance will be enhanced and improved.

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