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Shari'ah supervisory board characteristics effects on Islamic banks' performance: Evidence from Malaysia (Article)

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Abstract

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Purpose: Islamic banks (IBs) must stay Shari'ah compliant to enhance their customer loyalty and obtain a competitive edge. Given the performance of Shari'ah supervisory board (SSB) continues to be a matter of concern especially for IBs across countries that have a different regulatory environment, the purpose of this paper is to examine the effects of SSB characteristics on IBs' performance in Malaysia being a country that applies the most extreme intervention of regulatory agencies (pro-active model). **Design/methodology/approach:** A sample of 15 Malaysian IBs is used to test the study hypotheses for the period from 2008 to 2015 using the Generalized Method of Moments estimator.

Findings: The results reveal strong support for a significant association between SSB size, doctoral qualification, change in the SSB composition and performance. In addition, the study supports the view that SSB with cross-membership and reputation is very important in improving the performance of IBs. **Research limitations/implications:** First, the paper focused only on Malaysia which adopts a pro-active model, and therefore, extending the investigation to include countries that adopt the different models may provide a better view of the best Shari'ah governance (SG) practices for IBs. Second, there is a need for more empirical analysis regarding the optimal SSB size of IBs. **Practical implications:** This paper provides empirical evidence for regulators and policy makers in Malaysia, to understand how to enhance the performance of IBs using SG. Furthermore, marketers of Malaysian IBs should focus on SG practices as an important element for attracting Muslim customers, especially as there is a lack in this aspect. **Originality/value:** To date, it seems there is no empirical study that has examined to what extent the impact of SSB characteristics on IBs performance can be affected by the degree of agencies intervention, whether extreme or slight. Malaysia has been chosen as the only country that adopts the most extreme model. © 2018, Emerald Publishing Limited.

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