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Capital structure of Islamic banks: a critical review of theoretical and empirical research (Article)

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Abstract

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Purpose: This paper aims to critically evaluate theoretical and empirical research into capital structure practices in Islamic banks (IBs) from four perspectives, namely, theoretical aspect and its nature, determinants of capital structure in IBs, links between capital structure and risk management and nexus between capital structure and performance of IBs. **Design/methodology/approach:** The authors will review and examine past studies on IBs' capital structure from both theoretical and empirical research. **Findings:** The paper concludes that most of the literature on IB capital structure is largely theoretical than empirical. The existing studies on IB capital structure have various limitations, which suggest a need for detailed empirical work. Detailed empirical research in the field of capital structure will support bank managers and policymakers in making decisions about improving capital structure. **Originality/value:** This research will make several noteworthy contributions to address literature gaps for IB capital structure. Furthermore, this paper will identify areas for future research into capital structure practices and IB financing decisions. Lastly, this paper will equip regulators with guidelines for establishing sound capital requirements for IB. © 2017, © Emerald Publishing Limited.

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