

# Balancing Faith and Finance: How Ownership Structures Shape the Impact of Shariah Governance on Islamic Bank Performance

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**Abstract:** - This research examines the complex relationship between the practices of Shariah governance (SG), the ownership characteristics, and the financial performance (FP) of Islamic banks (IB). Using quantitative data within a particular financial setting, we analyze the influence of the Shariah governance index (SG\_INDEX) on FP measured using return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). Data was collected from 58 IBs in nine Middle Eastern countries. The results exhibit a positive relationship between SG and IB performance. In addition, we examined the moderating role of OC (OC) and the type of ownership (public or private) between SG and bank FP. The findings of this study showed that OWN\_CON moderated negatively the effect of SG\_INDEX on ROA and TQ. In addition, the OWN\_TYPE moderated positively the effect of SG\_INDEX on ROE and TQ. IB in the Middle East has to strengthen its SG by considering all the components and balancing its OWN\_CON to enhance the performance of FP of IB in the region.

**Key-Words:** - Shariah Governance, Return on Assets, Return on Equity, Tobin's Q, Islamic Banks, Financial Performance, Balancing Faith.

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## 1 Introduction

### 1.1 Background

The introduction of Islamic banks (IB) has come to overcome the issues that are related to traditional banking. Since its establishment fifty years ago, the IB has provided solutions to the Muslim and non-Muslim communities who are seeking ethical forms of financing and doing banking transactions. One of the main features of the IB is the prohibition of interest (*Riba*). IB adheres to the Islamic principle of forbidden *Riba* and avoiding unlawful transactions from an Islamic perspective, [1]. This is done by adopting profit and loss sharing (PLS), including several agreements such as *Mudarabah*

and *Musharakah*. The principle of these agreements is to support and encourage a sharing contract between the banks and investors in which the PLS is implemented, [2]. This unique method of funding, which focuses on tangible economic activities and transactions supported by assets, helps establish a financial system consistent with *Shariah* principles and is socially responsible and sustainable, [3].

The financial performance (FP) of Islamic banks (IB) can be assessed using profitability indicators such as return on equity (ROE) and return on assets (ROA). The indicators provide valuable information on the profitability and efficiency of IB, presenting their capacity to create returns for shareholders and adequately manage their assets,

[4], [5]. Tobin's Q (TQ) is a financial indicator that evaluates a company's performance by examining the correlation between its market value and the cost of replacing its assets, [6]. TQ can serve as an additional metric to evaluate the market's perception of the worth of an IB or any other financial institution concerning its assets, [7], [8], [9], [10]. It offers an alternative viewpoint in contrast to measurements such as ROE and ROA, emphasizing the market's evaluation of the company's value relative to the cost of replacing existing assets, [11].

The *Shariah* Supervisory Board (SSB) is critical for complying with *Shariah* governance (SG) and implementing Islamic banking principles, [12]. The SSB, consisting of Islamic scholars, supervises and authorizes financial goods and transactions. This monitoring is essential to guarantee that they adhere to *Shariah* standards, [13]. The consistent examination via periodic audits and the issue of religious decrees ensure the ethical soundness of Islamic financial organizations. The strong governance structure instills trust among stakeholders and maintains the ethical principles that are the cornerstone of Islamic banking, [4].

One of the crucial variables that can affect the FP of IB is the ownership characteristics. There are several forms of ownership in Islamic banking, and these include public-owned, private, and government-controlled banks, which highlights the complex nature of the banking industry, [14]. IB listed on the stock exchange is influenced by market forces and shareholders' expectations. This necessitates a careful equilibrium between achieving financial success and adhering to *Shariah* principles, [15]. Privately held institutions, often under the authority of individuals or families, may provide a more customized approach but can present difficulties in governance and succession. Government ownership, however, brings in the aspect of governmental influence and responsibility, [16], [17]. Grasping these ownership arrangements is essential for understanding the workings of IB and assessing how their ownership patterns influence their capacity to maintain *Shariah* standards, [18].

Based on the literature review, there are several gaps in the literature. In terms of countries, most previous studies were conducted in a single country by examining the effect of governance on the FP of IB. In contrast, few examined this association in Middle Eastern countries, e.g., [19], [20], [21]. Regarding the mediator or the moderator, studies deployed moderators such as *Shariah*-approved companies [22], earning management [23], [24] board quality or size [25], [26] while limited

deployed the ownership concentration (OC) or type as moderators. The timeframe of the reviewed studies has been set to be until 2015, with variations in the study period. For instance, some studies have taken only one year of observation, [27], [28], [29]. Other studies were limited to a period between three to five years, [30], [31], [32], [33], [34].

Therefore, this research explores SG's direct influence on IB FP in the Middle East. In addition, this study examines the moderating role of ownership structures in this relationship. An essential aim of this study is to discover the mechanisms by which ownership impacts the effectiveness of SG in influencing financial outcomes in Islamic banking. Focusing on the nexus between SG and IB performance, this study uniquely introduces the moderating role of ownership structures, filling a notable gap in the existing literature. By investigating how the characteristic of ownership can affect the effectiveness of SG, the research offers valuable insights into IB strategy and governance compliance and process. Furthermore, it promises to enrich theoretical frameworks in Islamic banking research, paving the way for a deeper understanding of governance complexities in the sector and potentially informing future regulatory guidelines. The next section discusses the literature review, followed by methodology, findings, and conclusion.

## 1.2 Literature Review

### 1.2.1 Financial Performance of Islamic Banks

One of the essential characteristics of IB is the adherence to Islamic principles which are derived from the Quran and the Hadith, [35], [36], [37]. Islamic banking has expanded in Muslim and non-Muslim countries, aiming to fill the need for products and services that adhere to *Shariah* principles, [38], [39]. Nevertheless, researchers have argued the effectiveness of IB compared with the conventional banking system, [40]. Prohibiting *Riba* and transactions that involve unlawful activities from the Islamic perspective requires the IB to use a clear and different approach to the transaction and contractual arrangements, [41]. Unlike traditional banking, IB focuses on asset-based financing. However, similar to the traditional banks, the IB performance is assessed using accounting-based indicators, which are the ROA, and ROE, as well as market-based indicators, such as the TQ, [42]. This measurement of FP is in line with prior literature that has examined the performance of IB, [28], [43]. Therefore, in this study, the FP is assessed by three indicators that are ROA, ROE, and TQ.

### 1.2.2 Shariah Governance in Islamic Banking

*Shariah* governance (SG) is essential in implementing *Shariah* principles in terms of reporting and doing business. Components of SG, which include the SSB and the *Shariah* audit committee, play a crucial role in maintaining ethical standards in Islamic banking. IB rigorously adheres to Islamic principles in their daily operations, forbidding *riba*, unethical business methods, and excessive uncertainty (*gharar*), [44], [45]. By implementing SG, banks ensure that their activities and products consistently align with Islamic norms, [46]. The persistent adherence to *Shariah*-compliant services attracts customers seeking such services. This has a critical impact on customer loyalty and significantly increases total revenues, [45], [47]. Several elements were used in measuring SG, such as SSB size, cross-membership, reputation, and internal *Shariah* auditing, [19]. Further, *Shariah* committee, risk, and audit and *Shariah* audit, committee, and review were also used, [48]. SG is also measured using an index of SSB characteristics and items [48]. This research expands the scope of SG to include SSB characteristics, *Shariah* audit, review, and committee.

### 1.2.3 Ownership Structures and Their Significance

Islamic banking organizations' governance and operations depend on ownership arrangements such as Mudarabah, Musharakah, Wakalah, and Ijarah. The elaborate *Shariah*-compliant structures demonstrate a commitment to equality, clarity, and ethics, [1]. Like traditional banks, IBs have private and public ownership. Private ownership allows direct decision-making by concentrating ownership among individuals, families, or groups. Private ownership helps the IB remain adaptable and nimble, [14]. Private ownership speeds up market-responsive choices without protracted deliberations. It also unifies the bank's vision, which improves strategic business strategies. High-private-ownership banks can take more risk, which boosts profitability, [16], [17].

On the other hand, public ownership in IB entails a decentralized ownership framework, including private and institutional investors and perhaps the government. Publicly owned IB can easily obtain funds from the financial market by issuing shares, and this enables the bank to expand and develop. Diversifying ownership in public entities decreases the consolidation of power, potentially improving corporate governance. Furthermore, IB listed on the stock market are subject to thorough examination by the public,

which promotes openness and responsibility as they are answerable to a broader range of investors, [18]. Irrespective of the manner of ownership, it is crucial to prioritize adherence to Islamic values. Both private and public ownership structures must adhere to *Shariah* norms, assuring ethical behavior and conformity with Islamic financial principles. The ownership structures of IB have a substantial effect on their corporate governance processes, [49]. This influence is seen in decision-making, risk management, and adherence to *Shariah* standards. Well-defined ownership structures and robust governance systems are crucial for ensuring the efficient operation of IB.

## 2 Problem Formulation

### 2.1 Agency Theory

Agency theory is a widely used theory to explain the relationship between governance and performance. The theory was developed by [50]. One of the main assumptions of the theory is that there will be an agency problem due to the conflict between ownership and management. This is because management will act in self-interest to maximize their wealth while ownership limits access to the management of the organization. To overcome this issue, effective governance needs to be implemented. For this reason, several seminal works highlighted the importance of governance, [50], [51]. Accordingly, most studies that have examined governance, particularly corporate governance, have deployed the agency theory, [52].

In the context of SG, few studies deployed the theory to explain the link between SG and FP of IB. Nevertheless, recently the theory has been applied by researchers to understand the outcome of SG, such as the FP, [53], [54], [55]. These studies highlighted the important role of SSB in monitoring the activities of a bank and disclosing important information that is of concern to shareholders and investors, [53]. Studies also highlighted the role of other components of SG, such as the *Shariah* review, *Shariah* committee, and *Shariah* auditing, in improving the effectiveness of SG, [54], [55]. These studies deployed the agency theory in explaining the link between SG and FP. Therefore, this study utilizes agency theory to explain the effect of SG and the ownership characteristics on the FP of IB.

### 2.2 Hypotheses Development

The role of SSB is critical in IB as it ensures the effective implementation of SG. SSB ensures the

transparency of reporting and the adherence to *Shariah* principles as it helps improve the credibility of SG, [56]. It is critical to share information about the SSB to solve issues that are related to impartiality, privacy, and uniformity of verdicts, [57]. *SG* is similar to conventional CG but includes *Shariah* judgments that control property rights and contracts. It strongly emphasizes ensuring stakeholders know their rights, [58]. The active participation of a well-informed SSB has a favorable effect on the performance of IB, as it reinforces their social obligations and improves the bank's reputation, [59]. This study suggests a favorable influence on the FP of IB in the Middle East. The analysis aligns with the increasing focus on transparent governance systems in Islamic banking.

H1: *SG* has a significant positive effect on the FP of IB in the Middle East.

The concentration and type of ownership have a significant impact on the success of an organization. Specifically, high levels of institutional ownership are positively correlated with performance, [60]. [21] discovered disparities in efficiency depending on the ownership structure. In contrast, [61] emphasized the crucial influence of ownership on performance, with local banks surpassing foreign banks during times of crisis. [62] showed that institutional ownership impacts risk-taking behavior, whereas [63] revealed that OC moderates the relationship between activity limitation and performance.

Regarding Islamic banking, [64] discovered that the factors influencing the stability and profitability of banks vary depending on their ownership type. IB is more lucrative, but commercial banks are often more stable. [65] say low OC decreases risk. Research on the effect of OC on organizational effectiveness has shown inconsistent results. [27] showcased the crucial significance of ownership in the performance of businesses in Egypt, while [20] establishing a connection between OC and performance. However, [30] discovered that OC and type had no significant impact on performance. [66] emphasized the significant influence of OC in the Middle East and called for more investigation into its moderating role. [52] investigated how OC influences the relationship between the board of directors, audit committee, and FP. This research suggests that the link between *SG* and FP of IB might be influenced by the concentration and type of ownership (public vs. private).

H2: Ownership structures moderate the relationship between *SG* and the FP of IB.

Specifically:

H2a: Banks with OC will exhibit a stronger positive relationship between *SG* and FP.

H2b: Banks with ownership type will exhibit a weaker positive relationship between *SG* and FP.

## 2.3 Research Framework

Based on agency theory and the review of previous studies, this study proposed that the effect of *SG*, measured using an index on the FP of IB, is positive. This study includes nine countries; therefore, control variables were selected on the macro and micro level. On the macro level, countries differ in gross domestic product (GDP) and inflation. Thus, these two variables were set to be controlled in this study. Additionally, IB differs in size, age, and leverage level. Accordingly, these three micro or bank-level variables are controlled in this study. The study also proposed that OC and ownership type (private vs. public) are moderating variables between *SG* and FP. Figure 1 shows the conceptual framework of this study.

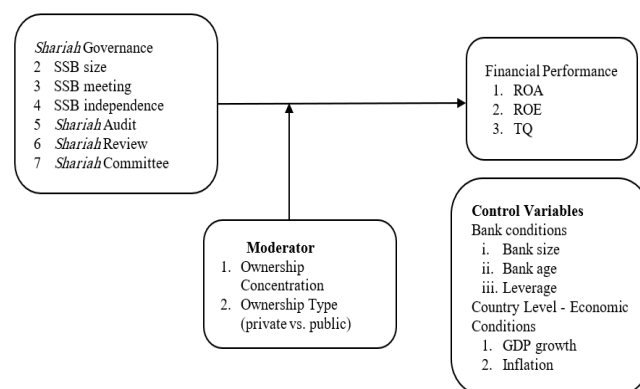


Fig. 1: Conceptual Framework

## 2.4 Sample

This study examines the influence of *SG* on the FP of banks in the Middle East from 2012 to 2022. The study focuses on nine countries, namely Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Iraq, Jordan, and Turkey. The selection of these nations was based on their significant involvement in Islamic banking, as shown by the presence of many IBs. This study fills a vital research vacuum by explicitly examining the time after 2017, which previous studies have not extensively covered, to investigate the connections between *SG* and performance in these nations. The

2008-2009 financial crisis resulted in a heightened focus on governance in the Middle East, particularly after the Arab Spring in 2011, which caused political instability that affected the area. The increased interest in *Shariah*-compliant banks or IB, driven by economic crises and political shifts, highlights the need for a thorough analysis of SG within the specific period from 2012 to 2022. The sample consists of banks selected based on the distinctive governance systems inherent in banking organizations compared to other kinds of firms, such as publicly traded corporations. Banks are eligible if they have been active since 2012 and possess the necessary data. After applying these criteria, 58 IB met the inclusion criteria, and the data were collected from these banks.

## 2.5 Measurements

The dependent variable, the bank FP, was measured using three matrices namely ROA [67], [68], ROE [69], [70] and TQ (ratio of the market value of a firm's assets to the replacement cost of those assets) [71], [72].

For the independent variable, SG\_INDEX, we created an unweighted index consisting of six elements, which are:

- i. The size of the *Shariah* Supervisory Board (SSB\_SIZE): Measured by the number of SSB members [73],
- ii. The frequency of SSB meetings (SSB\_MEET): Measured by the number of meetings during one financial year, [74], [75], [76], [77], [78].
- iii. The independence of SSB members (SSB\_IND): Measured by the percentage of independent members to total members of SSB, [79], [80], [81].
- iv. *Shariah* committee (SSB\_SC): Measured using eight items where 1 is assigned if the item has existed and zero otherwise, [48].
- v. *Shariah* review (SSB\_SR): Measured using four items where 1 is assigned if the item has existed and zero otherwise, [48].
- vi. *Shariah* audit (SSB\_SA): Measured using four items where 1 is assigned if the item has existed and zero otherwise, [48].

For the moderating variable, we used two measures, which are ownership structures and ownership type. For ownership structure, we refer to OC (OWN\_CON), which is the extent to which a few large shareholders hold shares versus being widely distributed among many shareholders. We used a dummy variable 1 if there is an OC (5% of

share or above owned by one individual or institution) and zero if there is no OC. While ownership type (OWN\_TYPE) was measured using a dummy variable that takes the value 1 if the firm is publicly owned and 0 otherwise.

We included several control variables to avoid the problem of omitted variable bias. Amongst the variables are bank size (BANK\_SIZE) which is measured by the natural logarithm of total assets [82], bank age (AGE) which is the number of years since the bank's establishment [79], [80]; leverage (LEV) which is the ratio of total debts to total assets [83], economic factors which are GDP which is measured by the natural logarithm of GDP per capita [84], and INF which is the inflation rate measured by the consumer price index, [84].

## 2.6 Regression Model

The following equation was used to examine hypothesis (1) on the effect of the SG index (SG\_INDEX) on the FP, which is measured by ROA, ROE, and TQ.

$$\text{PERFORMANCE}_i = \beta_0 + \beta_1(\text{SG}_i) + \beta_n(\text{Control Variables}_i) + \epsilon_i \quad (1)$$

For measuring the second hypothesis, we use equation number (2), which measures the interaction between OC and ownership type with SG\_index (SG).

$$\text{PERFORMANCE}_i = \beta_0 + \beta_1(\text{SG}_i) + \beta_2 \text{SG}_i * \text{OWN\_CON} + \beta_3 \text{SG}_i * \text{OWN\_TYPE} + \beta_n(\text{Control Variables}_i) + \epsilon_i \quad (2)$$

All the variables were previously defined.

## 3 Problem Solution

### 3.1 Descriptive Statistics

Table 1 reports the descriptive statistics of all variables used in this study. The results show that the means for ROA and ROE are 1.97 and ROE, respectively. We find TQ ranged between 0.56 and 1.6, with a mean of 1.14, indicating that these banks have a market value higher than the book value. SG\_INDEX ranged between 0.25 and 1.00 with a mean of 0.75, indicating that the IB is significantly adhering to the *Shariah* principles. Std of 0.19, indicating low variation among the sampled banks. SBB size ranged between 5 and 19 members, with a mean of 9.73. The SBB meetings ranged between 4 and 19, with a mean of 10.77 yearly. SSB\_IND

ranged between 0.10 to 0.50 and a mean of 0.25, indicating that 25% of the SSB members are independent on average. Descriptive of the Shariah committee indicated a mean of 0.51 with a min of 0.20 and a max of 0.73. Shariah review ranged between 0.28 and 0.82 and a mean of 0.62. Shariah audit ranged between 0.29 and 0.70 and a mean of 0.57.

The GDP ranged between 30 billion and 833 billion. However, when using the natural log, the value of GDP ranged between 24.124 and 27.45. Inflation ranged between -2.54 and 19.59, with a mean of 2.90. The results show that bank size ranged between \$290,000,000 and \$80.80 billion, with a mean of \$1.27 billion. Using the natural log, the value ranged between 19.48 and 25.11. Bank age also ranged between 4 and 95 years, with a mean of 28.96 years. The leverage also ranged between 0.041 and 0.74, with a mean of 0.31. OC is high among all sampled banks, with a range of 0 to 1 and a mean of 0.80, indicating a high level of OC. Lastly, the ownership type ranged between 0 and 1, with a mean of 0.39.

Table 1. Descriptive Information of Variables

Variable	Obs.	Mean	Std. Dev.	Min	Max
Dependent variables					
ROA	638	1.97	1.96	-0.19	10.00
ROE	638	10.49	6.69	-1.43	31.00
TQ	638	1.14	0.15	0.56	1.60
Independent variables					
SG_INDEX	638	0.75	0.19	0.25	1.00
SSB_SIZE	638	9.73	2.37	5.00	19.00
SSB_MEET	638	10.77	2.49	4.00	19.00
SSB_IND	638	0.25	0.10	0.10	0.50
SSB_COM	638	0.51	0.98	0.20	0.73
SSB_SR	638	0.62	1.01	0.28	0.82
SSB_SA	638	0.57	1.09	0.29	0.70
Control variables					
Natural log GDP	638	25.396	21.54	24.124	27.45
INF	638	2.90	3.55	-2.54	19.59
Natural Log BANK_SIZE	638	20.96	22.14	19.48	25.11
AGE	638	28.96	24.02	4.00	95.00
LEV	638	0.31	0.13	0.041	0.74
OWN_CON	638	0.80	0.39	0.00	1.00
OWN_TYPE	638	0.39	0.48	0.00	1.00

### 3.2 Correlation Analysis

Table 2 (Appendix) reports the correlation matrix. We find a significant correlation between SG\_INDEX and the financial indicators. Specifically, SG\_INDEX shows a weak positive correlation with ROA, ROE, TQ, and INF. However, it exhibits a weak negative correlation with GDP. BANK\_SIZE and AGE have positive correlations with several other variables, indicating that both bank size and maturity may have a positive relationship with economic indicators. The correlations between ROA and ROE are positive with SG\_INDEX, ROE, and LEV but negative with GDP, INF, and OWN\_CON. We find that OWN\_CON and ROA have a negative correlation. TQ is positively correlated with SG\_INDEX, ROE, INF, BANK\_SIZE, and AGE, while GDP has negative correlations with SG\_INDEX, ROA, ROE, and INF. Overall, we find the highest correlation is between AGE and INF, with a value of 0.58, hence indicating no multicollinearity issues among the variables used in this study.

### 3.3 Regression Analysis

The results for the regression estimates are reported in Table 3 (Appendix). Columns (1), (2), and (3) report the estimations on ROA, ROE, and TQ, respectively. As reported in column (1), the results show that SG\_INDEX has a statistically significant positive effect on ROA at a significance level of 1%. SG\_INDEX also positively affected the ROE and TQ, as shown in columns (2) and (3), suggesting that the level of SG\_INDEX is positively related to the FP of IB.

For the effect of the control variable on ROA, GDP has a substantial positive effect, implying a robust association between the country's economic success and ROA. Despite its negative effect, inflation is also statistically significant at the 1% level. The result shows that AGE has a strong positive effect on ROA. ROE and GDP have highly significant positive effects at the 1% significance level. We find LEV is also statistically significant at the 1% level, as shown by a positive coefficient. This suggests that leverage plays a crucial role in explaining the variance in ROE. Regarding TQ, we find GDP and INF exhibit strong positive effects at a significant level of 1%, highlighting their considerable influence on the market value of banks. BANK\_SIZE, AGE, and LEV exhibit notable positive effects, hence showing their importance in explaining TQ.

The result of testing OWN\_CON and OWN\_TYPE as moderators is shown in Table 4 (Appendix).

The analysis shows the moderating effect of OC when regressed on ROA (Coef=-0.13) and TQ (Coef=-0.14), but not in terms of ROE. This indicates that the increase in the level of OWN\_CON would weaken the positive relationship between SG\_INDEX and ROA and TQ but would not affect the relationship between SG\_INDEX and ROE. The moderating effect of OWN\_TYPE is found to be positive in terms of ROE and TQ but not significant in terms of ROA.

### 3.4 Discussion and Implications

The presence of SG has a beneficial effect on FP, as shown by measures such as ROA, ROE, and TQ. This highlights the crucial role performed by the SSB in Islamic banking organizations. One of the important elements of SG is the SSB, which is critical for ensuring that the banks' activities are aligned with the *Shariah* principles. The SSB performs essential functions such as monitoring, auditing, and disclosing information about *Shariah* compliance by the IB. Having a strong SSB can give customers the impression that the IB is adhering to the *Shariah* principle, and this increases the customer's trust and loyalty to the banks, which ultimately leads to more revenue and better FP of IB. This, along with effective *shariah* auditing, committee, and review, can explain the positive effect of SG\_INDEX on the FP of IB. These findings are in line with prior literature. SG is critical for improving the FP of IB, as found by previous studies, [59].

The findings of the study indicated that OWN\_CON moderated the effect of SG\_INDEX on ROA and TQ. OWN\_CON did not moderate the effect of SG\_INDEX on ROE. These findings indicated that the increase in the OWN\_CON as a moderator reduces the positive effect of SG\_INDEX on ROA and TQ, but it does not affect the relationship between SG\_INDEX and ROE. The moderating effect of OWN\_CON indicates that Islamic banks with high OC can lead to a reduction in implementing the SG, and this weakens its effect on the ROA and TQ of FP. On the other hand, this conclusion is not valid in terms of the effect of SG\_INDEX on ROE. These findings are in agreement with prior literature that highlighted the issue of high OC and found that OWN\_CON moderated the effect of governance on FP, [66], [85].

In terms of the moderating effect of OWN\_TYPE, the findings showed that this

moderation is confirmed in the relationship between SG\_INDEX and ROE as well as SG\_INDEX and TQ. OWN\_TYPE increases the positive effect of SG\_INDEX with ROE and TQ, but it did not affect the relationship between SG\_INDEX and ROA. Therefore, having public banks can enhance adherence to SG and, as a result, increase the positive relationship between SG\_INDEX and ROE as well as SG\_INDEX and TQ. However, the insignificant moderating effect of OWN\_TYPE between SG\_INDEX and ROA indicated that the OWN\_TYPE is not related to the ROA of IB. Thus, it can be concluded that the increases in the OWN\_TYPE as a moderator can increase the positive effect of SG\_INDEX on ROE and TQ but not ROA. These findings are in agreement with prior literature, [66], [85].

These results matter to decision-makers. Selecting experienced and knowledgeable SSB members and ensuring high-quality auditing, committee, and review of *Shariah* practices can improve SG\_INDEX and IB performance. OWN\_CON should be balanced to ensure that SSB's views and opinions are natural and professional and not influenced by high shareholders. Types of banks matter too. A balance between private and state banks can maintain economic stability for Islamic banking.

## 4 Conclusion

This study explored how SG and ownership affect IB FP in nine Middle Eastern nations. The study indicated that the SG\_INDEX is essential for IB's FP and boosts ROA, ROE, and TQ. This showed that SG components including SSB, *Shariah* audit, committee, and review improve IB performance in Middle Eastern nations. Effective SSB may improve IB transparency, reporting, disclosure, and monitoring, ensuring Islamic compliance. We also found that OWN\_CON moderates the link between SG\_INDEX ROA and TQ. It was unclear if SG\_INDEX and ROE moderated. Also, OWN\_TYPE attenuated SG\_INDEX's influence on ROE and TQ but not ROA.

The findings of this research are limited to the context of Middle Eastern countries. The generalization of the findings cannot be extended to other countries due to the differences in regulatory quality, political stability, and government effectiveness. Further, the reliance on quantitative data that are collected from the annual reports of banks limits the generalizability of measuring the SG\_INDEX, which might have affected the results of this research. Therefore, the measurement of the

variables such as SG\_INDEX, FP, and ownership characteristics can be dependent on the variation of measuring the variables, which might also limit the findings of this research. The findings are also limited to the number of observations. Having a higher number of observations might affect the results of this study. As a way forward, future studies are recommended to examine more countries in the Middle East so that the findings can be generalized to the region. Further studies are needed to examine more components of SG, such as the SSB busyness, cross membership, reputation, and experience. Further studies can also compare the practices of SG in the Middle East, African countries, and Southeast Asia, where IB is active. Further studies can also examine specific types of OWN\_CON, such as family ownership, which is a known phenomenon in Middle Eastern countries. The usage of financial technology as a moderator between SG\_INDEX and FP of IB can be a direction for future work.

#### Declaration of Generative AI and AI-assisted Technologies in the Writing Process

The authors wrote, reviewed and edited the content as needed and they have not utilized artificial intelligence (AI) tools. The authors take full responsibility for the content of the publication

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## APPENDIX

Table 2. Correlation among the variables

	ROA	ROE	TQ	SGI	OC	OT	GDP	INF	BS	BA	LEV
ROA	1										
ROE	.234**	1									
TQ	-.108**	.073	1								
SGI	.112**	.026	.006	1							
OC	-.426**	-.087*	.119*	-.027	1						
OT	-.186**	-.089*	.110*	.041	.276*	1					
GDP	-.169**	-.167**	.031	-.054	.235*	.094*	1				
INF	-.086*	.279**	.213*	.068	.042	.242*	-.136**	1			
BS	.103**	.056	.064	.021	.107*	.015	.353**	-.064	1		
BA	-.207**	.163**	.203*	.044	.361*	.355*	-.088*	.580*	.084*	1	
LEV	-.164**	.060	.091*	-.021	.121*	.051	.115**	.106*	-.085*	-.023	1

Table 3. Regression estimates on the effect of SG on Islamic bank FP

Variable	ROA	ROE	TQ
CONSTANT	0.39**	0.41***	0.32***
SG INDEX	0.22**	0.28***	0.47***
GDP	0.55***	0.50***	0.36***
INF	-0.08**	0.06	0.28***
BANK_SIZE	-0.02	-0.02	0.05
AGE	0.64**	-0.09	0.17
LEV	-0.01	0.06**	0.11***
R-square	0.54	0.49	0.45
Obs (N)	638	638	638
F-stats	3.64	3.36	13.46

Table 4. OC and OT as Moderators

Variables	ROA		ROE		TQ	
CONSTANT	0.42***	0.44***	0.31**	0.29**	0.31***	0.33***
SG INDEX	0.18**	0.15**	0.21***	0.27**	0.32***	0.35**
OWN_CON	-0.18**		-0.17**		-0.15**	
OWN_CON*SG_INDEX	-0.13**		-0.09		-0.14**	
OWN_TYPE		0.210**		0.192**		0.10**
OWN_TYPE*SG_INDEX		0.09		0.181***		0.12**
GDP	0.33**	0.21**	0.33**	0.199**	0.31**	0.28**
INF	0.04	0.06	0.041	-0.032	0.04	0.06
BANK_SIZE	-0.005	0.065	-0.051	-0.039	0.156**	0.149**
AGE	0.33***	0.41***	0.039	0.041	0.21***	0.17***
LEV	-0.02	0.032	-0.04	0.052	0.22**	0.28**
R-square	0.47		0.54		0.49	
Obs (N)	638		638		638	
F-stats	2.72		3.01		10.91	

Note: \*, \*\*, \*\*\* indicates significance at the 10%, 5%, and 1% levels.