

**THE IMPACT OF SHARIAH GOVERNANCE AND MAQASID
SHARIAH DISCLOSURE WITH MEDIATING ROLE OF
BOARD OF DIRECTORS ON THE PERFORMANCE OF
ISLAMIC BANK IN MALAYSIA**

SITI NORADIBAH BINTI MD ZAIN

UNIVERSITI SAINS ISLAM MALAYSIA

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OF DIRECTORS ON THE PERFORMANCE OF ISLAMIC BANK
IN MALAYSIA**

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DOCTOR OF PHILOSOPHY IN ECONOMICS AND
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AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

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ABSTRAK

Tadbir urus Syariah dan pencapaian Maqasid Syariah adalah penting untuk didedahkan bagi memastikan akauntabiliti dan ketelusan. Peranan mekanisme tadbir urus Syariah dalam menegakkan pematuhan Syariah biasanya menjadi tumpuan pendedahan tadbir urus Syariah, manakala pendedahan Maqasid Syariah menunjukkan komitmen bank Islam kepada masyarakat dan semua pihak berkepentingan. Bidang ini adalah penting kerana sangat sedikit kajian telah dijalankan untuk menyiasat hubungan antara SC, audit Syariah, risiko Syariah, Maqasid Syariah, dan prestasi bank Islam dalam satu kajian, serta menekankan peranan Lembaga Pengarah yang menjadi pengantara perhubungan. Oleh itu, objektif kajian ini adalah untuk menyiasat kesan tadbir urus Syariah dan pendedahan Maqasid Syariah terhadap prestasi bank Islam dan mengkaji peranan Lembaga Pengarah dalam pengantaraan hubungan tersebut. Secara metodologi, kajian ini menggunakan teknik analisis kandungan dan membina kriteria pemarkahan berdasarkan skala Likert untuk mengukur tadbir urus Syariah dan pendedahan Maqasid Syariah yang diuji sebagai pembolehubah bebas dalam model. Bagi pembolehubah bersandar, Pulangan atas Aset (ROA), Pulangan atas Ekuiti (ROE), dan Nisbah Ekuiti Hutang (DER) telah diuji, manakala fungsi BOD digunakan untuk mengukur kesan pengantara. Data tersebut diperoleh daripada laporan tahunan bank Islam Malaysia dari 2011 hingga 2019 dan dianalisis menggunakan PLS-SEM (SmartPLS 3.0). Penemuan empirikal mendedahkan hubungan yang signifikan antara tadbir urus Syariah dan pendedahan Maqasid Syariah terhadap prestasi Bank Islam dalam beberapa model yang diuji. Sebagai contoh, hubungan yang signifikan telah dibuktikan antara SC pada DER dan risiko Syariah pada ROE dan DER. Hubungan yang signifikan juga didapati antara Maqasid Shariah dan ROA. Untuk kesan pengantaraan, pertama, keputusan menunjukkan bahawa BOD mengantara sepenuhnya hubungan antara SC dan DER. Kedua, Lembaga Pengarah sepenuhnya mengantara hubungan antara audit Syariah dan prestasi berdasarkan ROA, ROE dan DER. Ketiga, Lembaga Pengarah sepenuhnya mengantara hubungan antara risiko Syariah, dan ROE dan DER, manakala sebahagiannya menjadi pengantara antara risiko Syariah dan ROA. Kajian ini memberi implikasi bahawa pendedahan mengenai tadbir urus Syariah dan Maqasid Syariah memberi isyarat maklumat yang dikehendaki kepada pihak berkepentingan, dibuktikan oleh hubungan yang signifikan antara pendedahan dan prestasi kewangan IFI. Hasil kajian ini adalah berharga untuk pengawal selia dan pengamal sebagai garis panduan untuk meningkatkan prestasi korporat mereka melalui tadbir urus Syariah dan pencapaian Maqasid Syariah yang boleh berfungsi sebagai alat untuk pengurusan prestasi oleh IFI.

ABSTRACT

Shariah governance and Maqasid Shariah achievement are crucial to be disclosed to ensure accountability and transparency. The roles of the Shariah governance mechanisms in upholding Shariah compliance are usually the focus of the Shariah governance disclosure, while the Maqasid Shariah disclosure demonstrates the commitment of Islamic banks to the society and all stakeholders. This area is vital since very few studies have been conducted to investigate the relationships between SC, Shariah audit, Shariah risk, Maqasid Shariah, and the performance of Islamic banks in a single study, as well as emphasising the role of the BOD that mediates the relationship. Therefore, the objective of this study was to investigate the impact of Shariah governance and Maqasid Shariah disclosure on the performance of Islamic banks and examined the roles of the BOD in mediating the relationship. Methodologically, this study used the content analysis techniques and developed the scoring criteria based on the Likert scale to measure Shariah governance and Maqasid Shariah disclosure tested as independent variables in the model. For the dependent variable, Return on Assets (ROA), Return on Equity (ROE), and Debt Equity Ratio (DER) were tested, while the BOD function was employed to measure the mediator effect. The data were obtained from the Malaysian Islamic banks' annual reports from 2011 to 2019 and analysed using PLS-SEM (SmartPLS 3.0). The empirical findings revealed significant relationships between Shariah governance and Maqasid Shariah disclosures on the performance of Islamic Banks in some of the models tested. For instance, a significant relationship was evidenced between SC on DER and Shariah risk on ROE and DER. A significant relationship was also found between Maqasid Shariah and ROA. For the mediation effect, firstly, the result indicates that the BOD fully mediates the relationship between SC and DER. Secondly, the BOD fully mediates the relationship between Shariah audit and performance based on ROA, ROE, and DER. Thirdly, the BOD fully mediates the relationship between Shariah risk, and ROE and DER, while partially mediates between Shariah risk and ROA. This study implicates that the disclosures on Shariah governance and Maqasid Shariah signal desired information to the stakeholders, evidenced by the significant relationships between the disclosures and the financial performance of IFIs. The results of this study are valuable for regulators and practitioners as guidelines to improve their corporate performance through Shariah governance and Maqasid Shariah achievement that could serve as the tools for performance management by IFIs.

المخلص

تعتبر الحوكمة الشرعية وتحقيق المقاصد الشرعية من الأمور الحاسمة التي يجب الإفصاح عنها لضمان المساءلة والشفافية. عادة ما تكون أدوار آليات الحوكمة الشرعية في دعم الامتثال لأحكام الشريعة هي محور الإفصاح عن حوكمة الشريعة ، بينما يوضح إفصاح المقاصد الشرعي التزام البنوك الإسلامية تجاه المجتمع وجميع أصحاب المصلحة. يعتبر هذا المجال حيويًا حيث تم إجراء عدد قليل جدًا من الدراسات للتحقيق في العلاقات بين اللجنة العليا للتدقيق الشرعي والمخاطر الشرعية ومقاصد الشريعة وأداء البنوك الإسلامية في دراسة واحدة ، بالإضافة إلى التأكيد على دور مجلس الإدارة الذي يتوسط في صلة. لذلك ، كان الهدف من هذه الدراسة هو التحقيق في تأثير الحوكمة الشرعية والإفصاح المقاصد الشرعي على أداء البنوك الإسلامية ودراسة دور مجلس الإدارة في التوسط في العلاقة. من الناحية المنهجية ، استخدمت هذه الدراسة تقنيات تحليل المحتوى ووضعت معايير التسجيل بناءً على مقياس ليكرت لقياس الحوكمة الشرعية وإفصاح المقاصد الشرعي الذي تم اختباره كمتغيرات مستقلة في النموذج. بالنسبة للمتغير التابع ، تم اختبار العائد على الأصول (ROA) ، والعائد على حقوق الملكية (ROE) ، ونسبة حقوق الملكية (DER) ، بينما تم استخدام وظيفة BOD لقياس تأثير الوسيط. تم الحصول على البيانات من التقارير السنوية للبنوك الإسلامية الماليزية من 2011 إلى 2019 وتم تحليلها باستخدام PLS-SEM (SmartPLS 3.0). كشفت النتائج التجريبية عن علاقات مهمة بين الحوكمة الشرعية وإفصاح المقاصد الشرعية على أداء البنوك الإسلامية في بعض النماذج التي تم اختبارها. على سبيل المثال ، تم إثبات وجود علاقة كبيرة بين اتفاقية استكهولم بشأن DER ومخاطر الشريعة على ROE و DER. كما تم العثور على علاقة كبيرة بين المقاصد الشرعية والعائد على الأصول. بالنسبة لتأثير الوساطة ، أولاً ، تشير النتيجة إلى أن BOD يتوسط بشكل كامل في العلاقة بين SC و DER. ثانيًا ، يتوسط مجلس الإدارة بشكل كامل في العلاقة بين التدقيق الشرعي والأداء بناءً على العائد على الأصول ، والعائد على حقوق الملكية ، وإثبات المخاطر. ثالثًا ، يتوسط مجلس الإدارة بشكل كامل العلاقة بين مخاطر الشريعة و ROE و DER ، بينما يتوسط جزئيًا بين مخاطر الشريعة والعائد على الأصول. تشير هذه الدراسة إلى أن الإفصاحات حول الحوكمة الشرعية ومقاصد الشريعة تشير إلى المعلومات المرغوبة لأصحاب المصلحة ، ويتضح ذلك من العلاقات الهامة بين الإفصاحات والأداء المالي للمؤسسات المالية الدولية. تعتبر نتائج هذه الدراسة ذات قيمة للمنظمين والممارسين كمبادئ توجيهية لتحسين أداء الشركات من خلال الحوكمة الشرعية وتحقيق المقاصد الشرعية التي يمكن أن تكون بمثابة أدوات لإدارة الأداء من قبل المؤسسات المالية الدولية.

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LIST OF ABBREVIATIONS

AAIOFI	Accounting and Auditing Organizations for Islamic Financial Institutions
AVE	Average Variance Extracted
BOD	Board of Director/ Board
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
BIMB	Bank Islam Malaysia Berhad
CA	Cronbach 's Alpha
CR	Composite Reliability
CCA	Confirmatory Composite Analysis
CEO	Chif Executive Officer
CFA	confirmatory factor analysis
CSR	Corporate Social Responsibility
DER	Debt-to-Equity ratio
DV	Dependent Variable
EPS	earning per share
GP8-I	Guidelines on Corporate Governance for Licensed Islamic Banks
GRS	growth rate of sales
GSIFI	Governance Standard for Islamic Financial Institutions
HTMT	Heterotrait-Monotrait Ratio of Correlation
IB	Islamic Bank
ICM	Intellectual Capital Model
ICSR	Islamic corporate social responsibility
IFIs	Islamic Financial Institution
IFSA	Islamic Financial Service Act
IFSB	Islamic Financial Service Board
IAHs	Investment Account Holder
IIBI	Institute of Islamic Banking and Insurance
IV	Independent Variable
MCCG	Malaysian Code on Corporate Governance
MPEM	Maqasid Based Performance Evaluation Model
OECD	Organisation for Economic Co-operation and Development
PLS	Partial Least Squares
RBV	Resources-Based View
ROA	Return n asset
ROE	Return on equity
ROS	Return on sales
RRD	Risk-related disclosure
SA	Shariah Audit
SAC	Shariah Advisory Council
SC	Shariah Committee
SEM	Structural Equation Model
SGF	Shariah Governance Framework
SGPD	Shariah Governance Policy Document
SR	Shariah Risk

SC
UAE
VBI

Shariah Committee
United Arab Emirate
value-based intermediation

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DEFINITION OF KEY TERM

For a clearer understanding, this section explains some of the concepts and the definition for each variable used in this study.

a. Disclosure

The Islamic perspective of disclosure is based on two general requirements of Islamic accounting: The concept of social accountability and complete disclosure (Ahmed et al., 2017). Recently, organisations are increasingly disclosing extensive information about CSR issues in their annual reports. The extensive disclosure assists financial analysts in producing valuable new information (Cormier & Magnan, 2014).

Disclosure in this study is referred to the Shariah governance and Maqasid Shariah. The SC is the indicator for Shariah governance disclosure. Firstly, the Shariah governance disclosure information in this study was extracted from the SGF 2010 and referred to the SGPD 2019. The scope of this study was to analyse the Shariah governance disclosure based on the annual report. The Shariah governance function in Islamic banks ensures Shariah-compliant practices are practised in Islamic banks. Many past studies examined the relationship between the Shariah governance to the performance of Islamic banks and found a significant relationship between Shariah governance and the performance. However, a few studies were conducted by testing each function of Shariah governance to the performance of Islamic banks. Nonetheless, Md Zain and Shafii (2018) extensively review relevant literature on Shariah governance, consisting of the SC, Shariah audit, and Shariah risk and its impact on the performance of IFIs. In addition, the study on the Shariah governance by Md Zain et al. (2020) explored the reporting of Shariah governance in Islamic banks by developing

the Shariah governance disclosure items. Following a similar study, Masruki et al. (2018) tested the disclosure of Shariah review and Shariah audit function on Islamic banks' performance.

Secondly, the disclosure in this study is the Maqasid Shariah disclosure. The scope of Maqasid Shariah disclosure includes the social disclosure related to the contribution of the Islamic banks to the community in fulfilling their needs. The community in this study refers to the internal and external community. The internal community includes the bank's employees and other stakeholders. On the other hand, the external community is referred to as the local community or public. The disclosure in this study is concerned with the Islamic banks' contribution to the community other stakeholders. The Islamic banks provide the information and disclose all their activities in their annual report through this disclosure. All this related information shows the Islamic banks' effort to contribute to the community other stakeholders. In addition, the information of Maqasid Shariah was also extracted and harmonised from the concept of CSR and sustainability report, where it argues that the CSR program is part of Maqasid Shariah achievement (Arsad et al., 2015; Said et al., 2018).

Therefore, by harmonising the SCR characteristics and Maqasid Shariah, this study developed the items to characterise the Maqasid Shariah disclosure. With this study, the social disclosure in the annual reports allows the managers and investors to assess the information and reduce information asymmetry between managers and investors (Cormier & Magnan, 2014).

b. Independent Variable (Shariah Governance and Maqasid Shariah)

Shariah governance is derived from two words, namely "Shariah" and "governance". According to Hilmy and Hassan (2019), "Shariah" is translated as

Islamic law or Islamic rulings or way of life. The word Shariah has been applied and practised in the life of Muslims. Shariah commonly refers to the divine laws obligatory for humankind who believe in the existence of a Creator and the Day of Judgment that guide human actions. According to SGPD 2019, Shariah governance is crucial for IFI's stability; a sound Shariah governance promotes public trust in the integrity, governance, and operations of Islamic financial institutions (BNM, 2019).

The word 'governance' implies an act of steering, guiding, or directing someone or an organisation (Hilmy & Hassan, 2019). Hasan (2010a) defines 'governance' as "the style or way an organisation, institution, or corporation is guided, steered and controlled". Therefore, Shariah governance is defined as Islamic corporate governance that an Islamic organisation implements. It is a component of corporate governance specifically to Islamic banking and finance. Islamic banking and finance ensure compliance with the Shariah principles, such as its products, instruments, operations, practices, and management. Ginena and Hamid (2015, p. 80) define Shariah governance "as the overall system that manages the conformity of the activities of Islamic banks and financial institutions to the precepts of Shariah on transactions".

Cormier and Magnan (2014) emphasise that good governance leads to a better disclosure quality concerning the Shariah governance and disclosure. Corporate disclosure policies are essential in supporting the long-term impact of social capital on market-based risk and performance measures. The term Shariah governance in this study refers to IFIs, specifically Islamic banking. The Shariah governance in Islamic banking plays an exclusive role in ensuring that the operation of the Islamic Bank complies with the prescribed rules and Shariah principles, especially on the validity of products (Chik, 2012). In addition, Shariah governance also promotes moderation, justice, and fair relationships among stakeholders, such as profit-sharing investment

account holders and financing customers. These practices consequently enhance the confidence and trust of stakeholders (Chik, 2012). The main criteria of the Shariah governance are on establishing the Shariah board, which takes the responsibilities of assuring that transactions are performed in full accordance with the Shariah law (Alnasser, 2012), a feature that is distinguished from conventional banks.

c. Shariah Committee/Shariah Supervisory Board

The word Shariah Committee (SC) also known as Shariah Supervisory Board (SSB). The term SC has been applied in the Malaysian context based on BNM. Similar to the SC, Accounting and Auditing Organisations for Islamic Financial Institutions (AAOIFI) (2010), GSIFI No. 1 refers to the SSB as an independent body of specialised jurists in *Fiqh Muamalat* (Islamic commercial jurisprudence). The SC may include a member other than those who specialise in *Fiqh Muamalat*, an expert in IFIs, and *Fiqh Muamalat*. The SC is entrusted with directing, reviewing, and supervising the activities of IFI to ensure that they comply with the Islamic Shariah rules and principles. The SC serves as a monitoring and controlling mechanism that prevents Islamic banks from engaging in non-Shariah compliant investments (Haniffa & Hudaib, 2007).

Because this research is being conducted in Malaysian Islamic banks, the term SC in this study refers to the SC member's background, responsibility, and obligation to Shariah-compliant and Zakat. However, because the term SSB was used in the previous study, it is also used in this study to ensure it is consistent with the literature. Thus, the terms SC and SSB used in this study refer to the same meaning in order to align with previous studies and be applicable in the Malaysian context.

According to Grais and Pellegrini (2007), to ensure that the profits are generated within ethical parameters, SC has the right to advise on the distribution of income or

expenses among the bank's shareholders and IAHs (depositors). They are also responsible for calculating and paying Zakat and disposal of non-Shariah compliant earnings. On top of that, the SC is responsible for monitoring the corporate management behaviour's ethical and moral aspects, as Islamic moral codes will prevent individuals from behaving against ethics. Furthermore, the SC is accountable for training and guiding top management to apply Islamic rules in daily transactions to avoid religious or ethical conflicts.

d. Shariah Audit

Despite numerous definitions of Shariah audit addressed by scholars and any policy document, the definition of Shariah audit provided is not too different in terms of meaning. However, the definition of Shariah audit based on the policy document became a priority to define this word to express the meaning based on the study setting. Shariah audit is one of the control functions of Shariah governance according to the SGF 2010 and SGPD 2019. According to SGF 2010, "Shariah audit refers to the periodical assessment conducted from time to time to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance concerning the IFI's business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance" (BNM, 2010). Meanwhile, SGPD 2019 states that "The Shariah audit refers to a function that provides an independent assessment on the quality and effectiveness of the IFI's internal control, risk management systems, governance processes as well as the overall compliance of the IFI's operations, business, affairs, and activities with Shariah" (BNM, 2019). The meaning between these two documents seems similar; however, SGPD 2019 defines the Shariah audit as being more precise.

Yahya and Mahzan (2012) provide a simple sentence to express the definition of Shariah audit “as an audit attestation for Shariah compliance”. On the other hand, a comprehensive definition of the terms by Haniffa (2010) as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about religious and socioeconomic actions and events in order to ascertain the degree of correspondence between those assertions and those of the applicable financial reporting framework, including the criteria specified based on Shariah principles as recommended by the SC and communicating the results to all interested parties”. Lahsasna et al. (2013) argue that this definition captures the broad scope of Shariah audit by adding socioeconomic aspects into it other than the religious obligations. According to Lahsasna et al. (2013), the stated definition and objective of the Shariah audit make it easier to understand the scope of the Shariah audit, which is broader than a conventional audit because it comprises an extra attribute of ensuring that an IFI must comply with Shariah.

This study follows the definition of the SGF 2010 and SGPD 2019 to define the Shariah audit. Moreover, the Shariah audit’s disclosure items in this study have been operationalised based on the SGF 2010 and SGPD 2019.

e. Shariah Risk

Shariah risk is also derived from two terms, "Shariah" and "risk". As explained in the section above (SC), Shariah refers to the Islamic law or Islamic ruling, the law that is derived from Quran and Sunnah. Oxford dictionary defines "risk" as "a possibility of harm or damage against something insured". Mohd Noor et al. (2018) explain that the word "risk" refers to the loss or damage of money or property when used as a noun whereas when used as a verb, it means putting yourself or someone or something in danger, failure, or loss.

The term "risk" is extensively used in various subject matters, especially in western settings. Risk terminology has passed civilisations, such as Chinese, Greek, early Roman, and other ancient civilisations. The concept of risk was to be explained until a specific term related to risk emerged in the 15th to 19th centuries. (Mohd Noor et al., 2018). However, today the word risk extensively applies to the Islamic financial system. Ginena (2014) defines Shariah risk, a type of operational risk, as a risk of a financial loss that may occur due to a non-compliance with the Shariah rules in the business activities and transaction, as certified by the SC or relevant authority.

In IFIs, Shariah risk in Islamic financial institutions is referred to as the Shariah risk management function. SGF 2010 refers to Shariah risk management as "a function to systematically identify, measure, monitor, and control Shariah non-compliance risks to mitigate any possible non-compliance events. The systematic approach of managing Shariah non-compliance risks will enable the IFI to continue its operations and activities effectively without exposing the IFI to unacceptable levels of risk".

f. Maqasid Shariah

"Maqasid Shariah" is an Arabic term derived from two words, "Maqasid" and "Shariah". Maqasid is translated as objective, while Shariah is Islamic law or Islamic ruling (refer to the definition of Shariah). Maqasid Shariah, in this study, emphasises the social interest, including the individual, community, and environment, for human sustainability.

This study discusses the Maqasid Shariah at the necessary level, known as *daruriyyah al khams*, widely discussed in academic, Islamic organisation, and industry (Md Zain & Shafii, 2020). *Daruriyyah* is also classified as the level of survival that refers to human life. The purpose of Maqasid is to advocate human life based on

directing what is right (*Amar ma'ruf*) and forbidding what is wrong (*nahi mungkar*). It can be realised by establishing the *maslahah* in the economic activities and protecting the rights of the public (Hurayra, 2015).

The Institute of Islamic Banking and Insurance (IIBI) states that the Maqasid Shariah in Islamic financial perspective precisely places a value on promoting and encouraging righteous behaviour, such as moral conduct and goodness towards the public. It is not restricted to prohibitive rulings and discouraging immoral conduct and harmful action. The Maqasid Shariah, which refers to the protection of faith, intellect, protection of life, and property in an organization, is essential to promote justice and welfare to the workers in the company (Arsad et al., 2015). Emphasizing those protections to ensure every individual and community life is a more secure, knowledgeable, skilful, and peaceful life. In the broader scope, the consequences of Maqasid Shariah's achievement also extend to the community by providing protection and fulfilling the interest and social needs.

g. Mediator Variable: Board of Director (BOD) / Board

The Board of Directors (BOD) is referred to as the Board of Director in this study. This study used the acronym BOD to represent the Board of Directors. The word “Board” also used in this study to present the word “Board of Director” following the previous study. Thus, this study used both (Board and BOD) to refer to the Board of Directors. The BOD was measured individually and then combined in this study. Individual measures were created by coding each BOD’s values for each BOD’s items using information from the annual report. In this study, five indicators are used to assess BOD: BOD Size, BOD Independence, BOD Meeting, and the BOD’s Muslim director

(Shatnawi, 2020). These indicators were added together and calculated as a single variable. The BOD score represents the mediating factor.

h. BOD Size

In this study, the BOD size refers to the total number of directors on the board of each sample firm, including the CEO and Chairman for each accounting year (Guest, 2009; Shakir, 2008; Shatnawi, 2020). This BOD size includes outside directors, executive directors, and non-executive directors (Isik & Riza Ince, 2016; Shakir, 2008). Numerous studies were conducted on the effectiveness of BOD size on the performance of a firm. Likewise, many studies argue that the BODs effectiveness is significant and affects firm performance (Uwuigbe & Fakile, 2012). In addition, several studies reveal that a smaller Board size performs better than large board size (Barnhart & Rosenstein (1998) and Vafeas (2000) as cited in Shakir, 2008). Nevertheless, it is suggested that the Board size of a firm should not be too small and for the effectiveness of Board members participation in performing the duty (Shakir, 2008).

Concerning BOD size, this study defines the BOD size as a total number of members on the BODs, which is the information of BOD size obtained from the section of the BODs report from the annual report of Islamic Banks (Shatnawi, 2020).

i. BOD Independent

Numerous studies have used the BODs' independence as a variable to examine the association between the BODs and firm performance. According to MCG (2021), at least half of the Board is independent (Security Commission (SC), 2021). Therefore, BOD independence is appropriate for this study because Board independence is expected to make the monitoring task easier and prevent the misuse of firm resources,

enhancing performance and reducing the probability of complicity among top executives (Shatnawi, 2020). The Board independence variable equals the proportion of independent Board members and is “computed as the total number of independent directors on the Board”.

j. BOD Meeting

The BOD annual meeting is a regular activity for a firm to resolve the issues and discuss future planning, reporting, and decision-making. The BOD meeting in this study refers to the total number of BOD meetings throughout the year. The numbers of the BOD meeting are obtained from the corporate governance section on the Board annual meeting in the annual report. Some previous studies have investigated the effect of the number of meetings held by the BODs on firm performance (Shatnawi, 2020). Thus, the BOD meeting in this study refers to the total number of BOD meetings throughout the year.

k. Muslim in BOD

The meaning of Muslim is a person who embraces the religion of Islam and adheres to the teachings of Islam. Board refers to the BODs of a company. This study refers to the number of Muslims on the board as the number of Muslims in BODs. The list of BODs is found in a company's annual report. The Muslim director on the BOD computed based on the proportion of Muslim directors to the total number of directors, which has been used in many studies (Shatnawi, (2020).

l. Dependent Variable: Financial Performance

Financial performance has been used to measure a firm's overall financial health over a given period. It is a subjective measure of how well a firm uses its assets, and the firm can utilize the assets from its primary business model and generate revenues (Investopedia, 2021). Various financial performance measures have been used in academics and relate these measures to the company's policy that might influence the firm's financial performance, such as accounting-based performance. Accounting-based performance is centred on historical results, such as earnings, operating profits, and operating revenues, with the most used measures are Return on Assets (ROA) and Return on Equity (ROE) (Muritala, 2012; Shatnawi, 2020; Suardana et al., 2018). Nevertheless, the financial performance of this study refers to profitability (ROA, ROE) and gearing (DER) (Masruki et al., 2018; Shatnawi, 2020).

m. Return on Asset (ROA)

ROA is one indicator used to measure profitability and the most common accounting ratios used in financial analyses. This ratio may be described as net income divided by total assets' book value (Alzharani et al., 2011; Bhagat & Bolton, 2019; Maury, 2006; Yermack, 1996). The net income is acquired by taking the profit before tax and before financing charges. At the same time, the average total asset is achieved by averaging out the beginning, total assets, and the total ending assets for a particular period (Shatnawi, 2020).

n. Return on Equity (ROE)

ROE is an indicator used to measure the performance and management of a firm. The ROE is used to measure the return on the shareholder's equity and the firm's efficiency in generating profits (Peters & Bagshaw, 2014; S. Shatnawi, 2020). The ROE

shows the firm's financial statement after the net income as a percentage of shareholder's equity (Peters & Bagshaw, 2014). The average stakeholders' equity is derived by averaging the beginning and ending stakeholders' equity for the period under observation (Shatnawi, 2020).

o. Debt-to-Equity Ratio (DER)

Leverage is one of the significant factors that measures the performance of a firm. Some studies used the leverage ratio to measure corporate performance and relate to good governance (Shatnawi, 2020). The leverage is the utilization of borrowed funds to enhance firm performance. In this study, leverage equals the ratio of total liabilities divided by total assets (Lazzem & Jilani; Makhlouf as cited in Shatnawi, 2020; Roodposhti & Chashmi). The leverage in this study is referred to as the Debt-to-Equity ratio. The low level of gearing ratio allows creditors to reduce their pressure to build the trust of the credit ability of the firm to pay debts (Masruki et al., 2018).

Different investigators have demonstrated that leverage may positively or negatively impact firm performance (Gomes et al., 2016; Shatnawi, 2020). For example, a positive effect might occur because of monitoring by creditors and investors. In contrast, Myers (1977) points out that high operating rates may undermine strong performance in line with low investment in the subject. This negative effect is due to the fact that inflation could affect a company's ability to grow the new debt. Thus, this will lead to the loss of any opportunity to gain any investment opportunity.