

CHAPTER 5

CONCLUSIONS

5.1 Introduction

In the third section, the researcher discusses the theoretical and practical implications of the present study for both the body of knowledge and the research context. In this chapter, the researcher identified some limitations of the study and recommended future research directions based on the research constraints. Finally, the last section in this research provides the concluding remarks. In the concluding remarks, the researcher concludes the whole study based on the research findings.

5.2 Summary and Discussion of Findings

This study aimed to investigate the relationship between Shariah governance and Maqasid Shariah on the performance of Islamic banks in Malaysia by examining ten local Islamic banks in Malaysia's annual reports from 2011 to 2019. This study constructed the Shariah governance and Maqasid Shariah disclosure. It also examined the effect of the BOD in mediating the relationship between Shariah governance and Maqasid Shariah disclosure with the performance of Islamic banks in Malaysia.

The analysis for the first objective hypothesised the direct relationship between Shariah governance (SC, Shariah audit and Shariah risk) and performance (ROA, ROE, and DER). The finding shows there is a different result in this study. Firstly, the result indicates that SC is not associated with the ROA, which is inconsistent with many

previous studies. On the other hand, SC is associated with ROE and DER, indicating that H1b and H1c are supported at a significant level $p\text{-value} < 0.05$. Secondly, the relationship between Shariah audit on ROA, ROE, and DER confirm that none of the relationships is significant. The hypothesis testing on H2a, H2b, and H2c are not supported. Thirdly, the result reveals that Shariah risk is associated with ROE and DER, indicating that H3b and H3c are supported, while Shariah risk and ROA are not supported.

The second research objective is to investigate the relationship between Maqasid Shariah and performance. This study found that only H4a is supported, which is the relationship between Maqasid Shariah and ROA. In contrast, this study confirms that the relationship between Maqasid Shariah on ROE and DER is insignificant.

The third objective of this study consists of objective 3a and objective 3b. Objective 3a investigated whether the BOD mediates the relationship between Shariah governance and Islamic banks' performance. In contrast, objective 3b investigated whether the BOD mediates the relationship between Maqasid Shariah and Islamic banks' performance.

Objective 3a consists of hypotheses H5.1a, H5.1b, and H5.1c. Firstly, the finding on this study reveals that the relationship between SC and ROA is mediated by the BOD (H5.1a), which is not significant; it indicates that the BOD does not mediate the relationship between SC and ROA. In contrast, the relationship between SC with ROE (H5.1b) and SC with DER (H5.1c) is mediated by the BOD is significant, indicating that the BOD mediates the relationship between SC on ROE and SC on DER. At the same time, the BOD partially mediates the relationship between SC and ROE (H5.1b) and SC and DER (H5.1c). Thus, this study's finding suggests no mediation effect on the relationship between SC and ROA (H5.1a).

Secondly, for hypotheses 5.2a, 5.2b, and 5.2c, the result of this study reveals that the BOD mediates all the Shariah audit on ROA, ROE, and DER. This finding indicates that the BOD fully mediates the relationship between Shariah audit and performance. Thirdly, on hypotheses 5.3a, 5.3b, and 5.3c, this study found that the BOD mediates on the relationship between Shariah risk and ROA, ROE, and DER are supported. The direct relationship between Shariah risk and ROA is not significant, while for the indirect relationship, the BOD mediates the relationship between Shariah risk and ROA; thus, this study concludes that the BOD fully mediates the relationship between Shariah risk and ROA. In contrast, the BOD has partially mediates the relationship of Shariah risk with ROE and Shariah risk with DER. Finally, objective 3b investigated whether the BOD mediates the relationship between Maqasid Shariah and Islamic banks' performance (ROA, ROE, and DER). The result of hypothesis testing on H6a, H6b, and H6c implies no mediation effect on the relationship between Maqasid Shariah and ROA, ROE, and DER.

Consistent with the finding of this study, from Islamic banking perspective, this study emphasises that the ICM that relates with the characteristics of the BOD and the SC as part of the intellectual capital. SC and BOD is crucial in IFIs as Shariah governance structure to ensure Shariah-compliant system. Shariah governance as the requirement that need to demonstrate by the Islamic banks is critical elements to gain the legitimacy. Likewise, the Maqasid Shariah is a critical value initially unnecessary for the institution to be disclosed. However, the application of Maqasid Shariah in Islamic financial institutions is a symbol of a commitment towards Muslims and society. The intellectual capital model also guides the Islamic banks towards a competitive advantage. It is used to explain the need for intellectual resources with specific knowledge of Shariah and the Shariah governance structures implemented by the banks, such as the roles of SC, Shariah audit, and Shariah risk.

Specifically, Islamic banks must assign the Shariah Committee to play their role in Shariah matters and create confidence. It is necessary to consolidate and demonstrate Shariah governance and the BOD characteristics based on the size of the board, the independent board, frequency of meeting, and the Muslims on board that is expected to lead to the decision that considers the Shariah matters. It is unarguable when the finding of this study presents the significant relationship between the BOD and the performance of Islamic banks.

Furthermore, the other theories, namely, the agency theory, stewardship theory and stakeholder theories that also relate in this study specifically on the SC and BOD to this study on corporate governance. By integrating all the theories highlighted in this study, it can be seen that the legitimacy theory has been explained by the ICM, agency theory, stewardship theory and stakeholder's theory have been legitimised by disclosing the information of the Shariah governance and Maqasid Shariah through the information obtained from the annual report as communication tools between the institutions and stakeholders. This information is critical for the stakeholders, especially shareholders, Muslim customers, and society; it is helpful for decision-making and the community to review the activities and the organisation's effort concerning the community's interest.

In sum, this study investigated the Shariah governance and Maqasid Shariah disclosure that affects the Islamic financial institutions that is somewhat essential to highlight the critical elements, such as the compliance issues and the legitimacy of the Islamic banks that have influenced Islamic banks' performance. Disclosure and transparency have been revealed by many studies that cause the corporate failure or success. The reporting on the Shariah governance is critical for Islamic banks and all stakeholders regarding the Shariah-compliant. It is due to the impact of Shariah non-compliant status that can cause the risk of Shariah non-compliant, which will influence the status of income through the prohibited

sources or an invalid contract. Concerning the Maqasid Shariah, as the legitimacy theory proposes, there are direct associations between the public and institutions that the activities of banks will benefit the public. This association reveals the board's roles that strengthen the Shariah governance disclosure on the performance of Islamic banks. It has finally created awareness among the public towards the existence of the Islamic bank and other Islamic organisations.

5.3 Research Contribution

Firstly, this study makes an original contribution to the literature since it is a limited edition of its type. A novel contribution seen on the Shariah governance literature. Even though numerous studies were conducted in Shariah governance, this study highlights the Shariah governance disclosure by developing the Shariah governance disclosure items concerned with the SC, Shariah audit, and Shariah risk. These three Shariah governance elements have been developed based on the Shariah governance framework and the Shariah governance policy document. It is a comprehensive investigation into the combination of Shariah governance that covers the SC, Shariah audit, and Shariah risk as the requirement for IFIs.

Secondly, this study provides a novel contributes to the Maqasid Shariah knowledge. Many researchers have conducted numerous studies on the Maqasid Shariah in the IFIs industry, such as the Shariah governance. This study focuses more on the achievements of Maqasid Shariah disclosure by Islamic banks in Malaysia. In this study, the Maqasid Shariah was constructed as the independent variable to examine its relationship with Islamic banks' performance. However, the prior studies developed the performance measures of Islamic Banking based on the Maqasid framework of Mohammed et al. (2015b) and Asutay and

Harningtyas (2015), who developed the Maqasid Shariah index to evaluate the social performance of Islamic banks. However, this study developed the Maqasid Shariah disclosure items by integrating the elements of CSR and the Maqasid Shariah.

Thirdly, this study contributes to the literature, investigating the Shariah governance and Maqasid Shariah in a single study. To the best of the researcher's knowledge, there is no empirical study conducted in Maqasid Shariah and Shariah governance in a single study. The researcher found a unique combination when the Shariah governance and Maqasid Shariah were combined in the exogenous variables construct, unlike many previous studies that measured the Maqasid Shariah as financial-based performance as an endogenous variable.

Furthermore, not only the direct relationship between Shariah governance and Maqasid Shariah's performance, but this study also employed the BOD's role as a mediator variable to examine whether the BOD mediates the relationship between Shariah governance Maqasid Shariah with the Islamic bank's performance. The finding of this study provides evidence, where the BOD has mediated the relationship between Shariah governance as the requirements or mandatory elements for Islamic banks, contrary to the voluntary practices by Islamic banks on the Maqasid Shariah elements. However, the result shows no mediation effect on the Maqasid Shariah and performance.

Concerning the methodology, this study developed the Shariah governance and Maqasid Shariah disclosure items. Based on the secondary data that obtained from the Islamic banks' annual reports. This study gathers the disclosed information to investigate the impact on Islamic banks' performance. The measurement was based on a rating scale from one to five, of which the ranking assigned was based on the banks' level of information disclosure. The highest score was given five for the highly disclosed items. A similar study

is still limited in this field since the existing research seems to be on the CSR disclosure. Many studies have developed the disclosure items for a similar study related to corporate governance and Shariah governance. However, the current study specifically developed the disclosure items based on the SGF 2010. Also, it can be applied by the industry that is currently following the new SGPD 2019. This study indicates that the elements of Shariah governance is crucial and need to be disclosed in the annual report.

Meanwhile, this study integrated and harmonised CSR and Maqasid Shariah's elements that have contributed to this study. This harmonisation between CSR and Maqasid aligns with the implementation and the achievements of Maqasid Shariah that is appropriate to be applied in the Islamic organisation to cultivate the Islamic values instead of the western. The Maqasid Shariah disclosure items in this study consists of social and stakeholder welfare, not focusing on a single subject only. From the Islamic banking perspective, the elements of Shariah-compliant are a part of Maqasid Shariah's achievements. Meanwhile, from the corporate perspective, the elements of Maqasid Shariah are applied through a contribution to the corporate social responsibility program. They are emphasising the welfare and awareness of the organisation towards the community.

Therefore, theoretically, this study provides the empirical result as the new evidence for the academic field, of which some of the variables are also consistent and some other are not with the existing theory. Further, this study provides a direction and strengthens the existing literature concerning Shariah governance or traditional corporate governance related to the BOD. This result is also applicable to the industry to ensure the elements of the BOD are highlighted since it will influence the performance.

Finally, the outcomes will benefit the industry by providing evidence about the role of the BOD, Shariah governance, and Maqasid Shariah in enhancing the Islamic banks'

performance. Moreover, the result of this study could develop public confidence through the implementation and improvements on the Shariah governance disclosure by Islamic banks. In addition, even though the Maqasid Shariah and the performance found only Maqasid Shariah and ROA have a significant relationship; however, this result provides evidence on the elements of Maqasid Shariah becomes an objective for Islamic industry as part of their responsibility to the ummah. The Shariah governance and Maqasid Shariah disclosure are consistent with the legitimacy theory presented by the organisation towards the community and all stakeholders.

5.4 Implication of Study

The results of the study have provided several theoretical implications for future studies and some practical implications, particularly for Malaysian Islamic banks concerning the Shariah governance and Maqasid Shariah disclosure, besides emphasising the roles of the BOD.

5.4.1 Theoretical Implication

This study has integrated the Intellectual capital model with corporate governance theories namely stewardship theory and stakeholder's theory, and the legitimacy theory. Based on the variables that conducted in this study, the disclosures on Shariah governance and Maqasid Shariah, and the roles of BOD as mediator have evidenced by the significant relationships between the disclosures and the financial performance of IFIs.

Firstly, this study employed the BOD to investigate the roles of the BOD in mediating the relationship between Shariah governance and performance. The analysis of this study indicates that the board's role is significant and influences the relationship between Shariah

governance and almost financial performance (ROA, ROE, and DER). According to Ghayad (2008), the BOD position on business operations management is directly responsible for the Shariah board. Thus, the combination of the board's role and independent decision-making has enabled the Islamic banks to enhance and strengthen their performance. Consistent with the intellectual capital model, this theory suggests that the resources possessed by the firm are the primary determinant of performances to gain and sustain competitive advantage through the acquisition, shareholding, and use of the strategic asset (Wernerfelt, 1984). The resource-based approach is also consistent with other theories that structure the organizational and economic paradigm (Barney & Ouchi, 1986). For instance, this theory can be linked to the agency theory because the firm's deployment of the resources is influenced by minimising the agency costs (Castanias & Helfat, 1991).

The second implication is related to the Maqasid Shariah and the performance of Islamic banks. The element of Maqasid Shariah in this study is the integration of CSR. CSR or Islamic CSR is consistent with the Maqasid Shariah principles, whereby the Maqasid Shariah emphasises the elements of protection and interest of society. The Maqasid Shariah elements embedded in the CSR illustrated the roles of an organisation and its responsibility concerning the community in achieving the business objective. In terms of the disclosure, Maqasid Shariah is neither a mandatory element of the disclosure in the company's report nor the company's requirement. However, the legitimacy theory anticipates that the disclosure of the information voluntarily might influence public awareness. The disclosure of the information will notify the public about the organisation and show that the organisation is concerned with the society is aligned with the company's aim to achieve business goals.

Past empirical studies have revealed the association relationship between Maqasid Shariah and performance. Like this study, a direct relationship was found between Maqasid Shariah and performance. However, the function of the BOD does not mediate the relationship between Maqasid Shariah and the performance of Islamic banks. The result indicates that the Maqasid Shariah disclosure can directly influence the performance in line with the legitimacy and stakeholder theories. On the other hand, the board's function significantly mediates Shariah governance and Maqasid Shariah. The mediation effect of the BOD toward the relationship between Shariah governance and the performance might be due to the Shariah governance as the requirement of the Islamic banks on their practices that involve the most critical policy and regulation born by the BNM. In addition, concerning the disclosure, this study also explains the stakeholder theory, of which this theory states that the main objective of an organisation is to maximise the stakeholder's value. Regarding the disclosure in both Shariah governance and Maqasid Shariah, the information given should at least meet the stakeholders' expectations. Through the information provided, the stakeholders can gain knowledge, or through the news and company's policy, the stakeholders are informed of any benefit from the companies offered.

Thirdly, theoretically, the BOD has played a significant role in an organisation. The decision-making is born by the BOD. Even though the board can assign the SC in the Islamic banking environment, any decision related to the Shariah matter is born by the SC that carries out its duty independently. Thus, this study investigated the BOD size, BOD independence, total meetings conducted by the BOD, and the number of BOD Muslims in a year. These characteristics have influenced the performance and mediate the relationship between Shariah governance and the performance of the Islamic banks. Unlike this study, Zain and Abdullah (2019) have discussed the potential influence and relationship between the Islamic

banking sector's corporate governance mechanism and firm performance and the mediating role of Shariah governance disclosure.

5.4.2 Practical Implication

The main objective of this study was to present outcomes that might be beneficial and practical for IFIs and Islamic banks mainly. This study is useful for the IFIs industry, the government, business practitioners, business, and academic researchers to further react with the evidence on how the Shariah governance, Maqasid Shariah, and the role of the BOD influence the performance. Consequently, the present study is also helpful to the Malaysian Islamic organisations that emphasise the Shariah governance practice. Meanwhile, the critical information disclosure allows the Islamic banks' stakeholders, especially customers, to access the relevant information on the Islamic banks' practices.

Finally, the outcomes will benefit the industry by providing evidence about the role of the BOD, Shariah governance, and Maqasid Shariah in enhancing the Islamic banks' performance. The result of this study allows the industry, mainly the Islamic organisation, to emphasise the elements of Maqasid Shariah and enhance the achievement of Maqasid Shariah. Maqasid Shariah is the highest value related to spiritual understanding and the matters that benefit human life, including all the creatures that fulfil life's requirements. These findings also have practical implications for organisations developing and integrating their Maqasid Shariah disclosure rather than only focusing on CSR. The Maqasid Shariah elements have covered all the elements of CSR. Emphasizing the Maqasid Shariah is consistent with the legitimacy theory, which expresses that the industry concerns and appreciates the social that indirectly contributes to their business success.

Moreover, the result of this study could develop public confidence through the implementation and improvements on the Shariah governance disclosure by Islamic banks. In addition, even though the Maqasid Shariah and the performance found only Maqasid Shariah and ROA have a significant relationship; however, this result provides evidence on the elements of Maqasid Shariah becomes an objective for Islamic industry as part of their responsibility to the ummah. The Shariah governance and Maqasid Shariah disclosure are consistent with the legitimacy theory presented by the organisation towards the community and all stakeholders.

5.5 Limitation of Study

Although this study has met its objectives and contributes to this research area, the researcher's limitations need to be highlighted to permit a fair interpretation and adoption of its findings. Thus, this study found the limitations from the first analysis as highlighted below.

Firstly, this study focuses on the local Islamic banks in Malaysia because of the limited information accessible via the annual reports on Malaysian foreign banks. The annual reports of the foreign banks in Malaysia were only prepared explicitly on the financial report in the Malaysian context; however, the researcher could not obtain the information about the Maqasid Shariah disclosed in the corporate report. There is the international corporate report of foreign banks in Malaysia, but only general information is provided based on Malaysia. In this limitation, the researcher decides not to include the foreign banks in this study to avoid bias in the data collection even though the financial data provided are in the Malaysian scope, which can be obtained directly from the financial report.

Secondly, the data size is 2011 to 2019, during the SGF and before the SGPD. This data does not extend to the implementation of SGPD 2019 to avoid bias in collecting data. Since the foreign banks were not included in this study, there was a decrease in the data size. A total of ninety annual reports from nine-year annual reports applicable in this study were obtained from ten local Islamic banks (9*10). The rule of thumb proposed by Roscoe (1975) is that sample sizes larger than 30, and less than 500 are appropriate for most research (Bougie & Sekaran, 2020, p. 249). However, the sample of this study is considered lower than several studies conducted above 300 on their conservation.

Thirdly, the study on the SC, Shariah audit and Shariah risk in a single study using secondary sources are minimal. Some information on Shariah governance mechanisms is not necessary to disclose in detail in the annual report. It is for the internal report and internal practices to achieve Shariah's complaint status. Since minimal information on the Shariah review was disclosed in the annual report, this study has dropped the Shariah review. Thus, to study the Shariah review, Shariah audit, and Shariah risk, obtaining the data from the primary source is practical by conducting the interview or distributing the survey questionnaires.

Fourthly, this study focuses on Shariah governance and Maqasid Shariah disclosure. In this study, the Shariah governance disclosure items were developed based on the guideline of the SGF. These guidelines are not necessarily required to be disclosed in the Islamic banks' annual reports; however, some guidelines are required to be disclosed. The SGF as the requirement for all the IFIs is to enable the IFIs to be recognised as Shariah-compliant institutions. The different determinants between mandatory or voluntary disclosure and the requirements may confuse this study.

Fifthly, this study used the SmartPLS multivariate analysis concerning the data analysis tool. It is noticeable that this tool consists of two assessments, namely, the measurement model and the structural model. In this assessment, all the items need to meet the threshold values of each assessment. If the value does not meet the threshold value, the particular items need to be removed. As a part of the assessment process, this study required the deletion of several items to meet the threshold values to enable this study to proceed to the next step and to meet the study's objective.

5.6 Recommendations for Future Research

Being based on the principles of Shariah, Islamic banks are expected to be socially, ethically, and morally responsible and to publish their concern towards the Islamic requirement and the achievement of Maqasid Shariah in society. Shariah governance as a governance system of Islamic institutions to acquire an organisation recognised as Shariah-compliant. Maqasid Shariah is a voluntary practice in an organisation as a social responsibility to fulfil the need and the requirement towards Allah's SWT pleasure. The IFIs are required to meet the criteria of Shariah principles as highlighted in the framework or other policy documents of IFIs. This organisation cannot be recognised as a Shariah-compliant institution if they fail to present Islamic principles in business operations and activities.

Regarding the limitation highlighted in this section, the current study acknowledges several potentials to be explicitly explored for future research. Firstly, future studies can increase the data and population to reduce outliers, multicollinearity, and lower reliability. Future studies can combine the local and Foreign Islamic banks in Malaysia and increase the number of years for the data.

Secondly, since this study measured the disclosure level that may affect Islamic banks' performance, future studies can extend to measure the Shariah governance (SC, Shariah review, Shariah audit, and Shariah risk) practice from primary data. The primary data could be such as interviews and questionnaires that can cover several parts of information that cannot be obtained from annual reports. Communicating directly with a particular person, such as a representative from the Shariah department, is practical, and it is expected that the information could be obtained explicitly and directly from the practitioners or experts through the primary source, such as from the Shariah department.

Thirdly, the future research can differentiate between two or more groups for the subsequent study, for instance, to study the disclosure, the researcher can divide into mandatory and voluntary items of Shariah governance disclosure. Finally, by modifying the items in this study according to the current regulation, future studies can be carried out using the data of 2019 onwards and compare between during the SGF 2010 and SGPD 2019. Likewise, for a clear picture, the data for the study on the content analysis can also be extended to the corporate website or newsletters of respective banks. Future studies can also consider the qualitative aspect.