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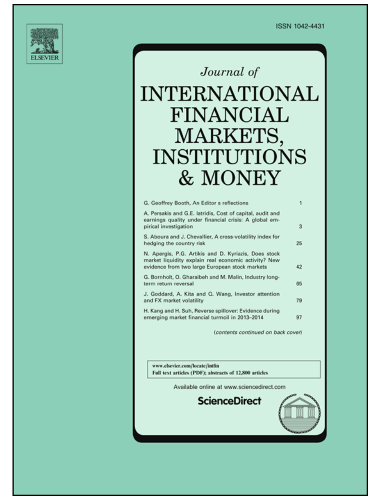

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Corporate Governance in Islamic Banks: New Insights for Dual Board Structure and Agency Relationships

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Abstract

We investigate the influence of the dual board structure on the financial performance of Islamic banks. The paper also investigates the unique agency relationships using a sample of 90 Islamic banks across 13 countries over the period 2006-2014. We find that the larger the Shari'ah Supervisory Board (SSB) the better the financial performance and this result reinforces the fundamental role of the SSB to certify permissible financial instruments and products. We also find evidence of the scope of operation hypothesis with respect to both the board of directors and the SSB as Islamic banks are characterised by a higher degree of complex operations. Interestingly, we find that a larger SSB size may result in lower agency costs and that the greater the size of the unrestricted contracts, the higher the agency costs. This implies that unrestricted profit-sharing contracts are one of the main sources of the unique agency relationships in Islamic banks. The paper has a number of policy implications for regulators including the design of governance mechanisms in Islamic banks and the dynamics of unrestricted contracts.

Key words: Islamic Banks, Shari'ah Supervisory Board, financial performance, corporate governance.
JEL Classifications: G15, G21, G39

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