

Do Shariah Committee Features Shape Financial Outcomes of Islamic Banks in Malaysia?

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Abstract

The Shariah Committee (SC) constitutes a critical element of the corporate governance framework within Islamic financial institutions. This study investigates how various features of the Shariah Committee shape the financial outcomes of Islamic banks in Malaysia, using Agency Theory as the conceptual lens. Utilizing regression models on data from 15 Islamic banks in Malaysia between 2019 and 2023, the study finds that only the frequency of Shariah Committee meetings is positively and significantly associated with financial outcomes. In contrast, committee size, the number of members with doctoral degrees, and committee remuneration do not show significant effects. The results offer dual contributions: theoretically, they enrich the discourse on Shariah governance effectiveness; practically, they provide evidence-based guidance for practitioners regarding the most impactful Shariah features. Nevertheless, the research has limitations as it considers only Return on Asset and Return on Equity as performance metrics.

Keywords: Islamic Finance, Islamic Banks, Shariah Committee.

Introduction

Shariah governance is a fundamental to the operation and legitimacy of Islamic Financial Institutions (IFIs). It represents the institutional mechanism designed to ensure that all activities, products and services offered by the IFIs are in continuous compliance with the principles of Shariah (Islamic law). It is a comprehensive framework that integrates ethical and legal oversight into the corporate structure of an IFI. This framework typically encompasses several key components such as Shariah Committee, Shariah Review, Shariah Audit, Board of Directors and top management.

One of the vital components in Shariah governance is the Shariah Committee (SC). It is a vital component of the governance structure in Islamic banks (IBs). Under the Shariah Governance Policy Document 2019 (SGPD 2019), issued by Bank Negara Malaysia (BNM), the role of the SC has been reinforced where the SC should consist of at least five members, hold meetings at least six times each year, and ensure members hold, at a minimum, a bachelor's degree. While SGPD 2019 does not explicitly prescribe SC remuneration, the earlier Shariah

Governance Framework 2010 (SGF 2010) stipulates that remuneration should be set by the Board of Directors on advice from the Remuneration Committee.

Previous empirical research has investigated how SC features shape the financial outcomes of 15 IBs in Malaysia, but much of the data used ends before 2019, limiting relevance in light of more recent developments such as the COVID-19 pandemic. For instance, Nomran et al. (2018) used data covering 2008–2015, and Haron et al. (2021) focused on 2010–2018. These studies do not include data beyond 2019, they do not capture any disruptions or changes during and after the pandemic.

Accordingly, this study aims to build upon the prior literature by offering updated empirical evidence of how SC features shape the financial outcomes of IBs in Malaysia, covering the periods before, during, and following the COVID-19 crisis. The intent is to provide both theoretical contributions and actionable insights for practitioners in Islamic banking.

The structure of this paper is as follows: First, a review of related literature and hypotheses development; second, presentation of data sources and methodology; third, discussion of empirical findings; and finally, the conclusions and implications of the study.

Literature Review

Roles of Committee in Islamic Banks

According to the latest guidelines outlined in the SGPD 2019, the SC serves as one of the Shariah governance tools, complementing the three-control functions: Shariah risk management, Shariah review and Shariah audit. The stability of IBs largely depends on effective functioning of the SC. Its establishment increases public confidence in IB's operation, management, and integrity. As an independent body, the SC is essential in monitoring all Islamic bank operations adhere to Shariah standards. The five (5) roles of the SC were outlined under Clause 10.2, Part C (Key responsibilities) of the SGPD 2019. These include: (1) providing an opinion to IBs to make sure that their objectives, activities and operations comply with Shariah and offering guidance on the implementation of decisions made by SAC or other relevant Shariah standards, (2) making decisions or providing advice on matters requiring referral to the SAC, (3) offering guidance on any business operations or activity that could result in Shariah non-compliance, (4) reviewing and confirming findings of Shariah non-compliance identified by any relevant internal functions, (5) approving rectification measures to address Shariah non-compliance events. Additionally, based on the SGF 2010, the SC is responsible for endorsing Shariah-related policies and procedures, as well as validating relevant documentation such as contracts, terms and conditions, product manuals, marketing materials, brochures, and other legal documents used in executing transactions.

Features of the Shariah Committee

There were four (4) features of SC used in this study: size of the SC, frequency of SC meetings, educational qualifications of SC members, and their remuneration. First, for size of SC members, according to SGPD 2019 item 13 (Composition), Clauses 13.2 and 13.4, a SC must have a minimum of five (5) members for local and fully operational Islamic banks and three (3) members for Islamic windows and overseas branches. Second, for frequency of SC meetings, as stipulated in item 11 (Shariah Committee meetings), Clauses 11.2 and 11.3 of

the SGPD 2019, SC meetings must be held at least once every two (2) months, or a minimum of six (6) times a year for local and fully operational IBs, and at least two (2) times a year for Islamic windows and overseas branches. Third, for educational qualifications, as specified in item 12 (Appointment, cessation, and disqualification), Clause 12.2 of the SGPD 2019, a qualified Shariah Committee member must possess at least a bachelor's degree in Shariah or related fields. However, there is no specific requirement regarding postgraduate qualifications such as a PhD. Fourth, remuneration of SC members. The remuneration for SC members is not specifically mentioned in the SGPD 2019, it is stated in the previous framework, SGF 2010 under Section II (Oversight, Accountability & Responsibility), Clause 2.6: *"The board shall remunerate the Shariah Committee members appropriately as advised by its Remuneration Committee. Such remuneration shall reflect, and be commensurate with, the accountability, duties, and responsibilities of the Shariah Committee."*

Evaluation of Islamic Bank's Financial Outcome

Financial performance is usually used to measure an organization's income, profitability, and productivity (Huselid, 1995; Khatib et al., 2023). It is like a medical checkup for a company to know its financial health and help stakeholders in making decisions. Return on Assets (ROA) and Return on Equity (ROE), two of the many evaluation tools for measuring financial outcome. ROA demonstrates how profitably the bank uses its assets. The high ratio shows that the assets are being used efficiently by IBs to generate more profit. The low ratio shows that IBs have invested too much in their assets. ROA is calculated by dividing total assets by profit after taxes. ROE shows the profitability of the bank's use of the shareholder's equity. The high ratio shows that the shareholder's equity is being used efficiently by IBs to generate more profit. The low ratio shows that IBs have used too much of their shareholder's equity. The formula for ROE is profit after tax divided by total equity.

Agency Theory

Jensen and Meckling (1976) introduced the idea of agency theory, which describes how business principles relate to their agents. This theory describes circumstances when a person (the agent) performs services for another (the principal) in exchange for payment (Birjandi et al., 2015). The principal is thought to contribute funds to the organization, but because he is inexperienced in management, he hires an agent to run the company and make decisions for them (Shamsuddin and Ismail, 2013). However, agents and principles may pursue interests that conflict with one another, resulting in goal conflicts. This is the primary reason corporate governance requires the application of Agency Theory to alleviate principle-agent conflicts. In IBs, customers are the principle, and bank management is the agent. Agency problems can exist in IBs when non-shariah-compliant investment placement occurs, as customers are genuinely concerned about their money being utilized in a way that comply with Shariah (Chapra and Ahmed, 2002). According to Safieddine (2009), IBs deal with a more complicated agency problem because management, ownership, cash flow, and control are all separated. Therefore, the SC is an attempt to address the intricacies of agency and directly enhance financial performance as one of the Shariah governance tools (Grassa, 2013; Nomran and Haron, 2019; Khand and Zahid, 2020; Hassan et al., 2022).

Hypothesis Development

This study investigates how various features of the SC shape the financial outcomes of IBs in Malaysia, using Agency Theory as the conceptual lens. The hypothesis is developed to verify whether the SC features and the financial outcomes of IBs actually correlate.

Size of Shariah Committee

A SC must have a minimum of five (5) members for local and fully operational Islamic banks and three (3) members for Islamic windows and overseas branches, according to SGPD 2019 item 13 (Composition), Clauses 13.2 and 13.4 to manages agency conflicts inside IBs. Empirical studies offer mixed findings for SC size: Quttainah et al. (2013) argue that a larger Shariah Supervisory Board can reduce agency costs and enhance coordination among its members. Alman (2012) finds that banks tend to take greater risks in loan portfolios as the Board's size grows. Shittu et al. (2016) also confirm that bank performance is affected by Board size. Nowroz (2018) reports a positive relationship between Board size and financial performance measured by ROA. Similarly, Nomran et al. (2018) observe a favorable correlation between Board size and performance outcomes. In contrast, Matoussi and Grassa (2012) detect no significant impact of Board size on bank performance. These findings align with broader theoretical debates on board size: Yermack (1996) insists a smaller board fosters better communication and more effective decision-making. Conversely, Hamza (2013) contends that larger boards, composed of experienced scholars from various Fiqh schools, can deepen product knowledge and improve performance. According to Almutairi and Quttainah (2017) and Rahman and Bukair (2013), a larger and more independent Shariah Committee strengthens oversight, lowers agency costs, and aligns management actions with stakeholder interests. Haddad and Souissi (2022) warn that small advisory boards may increase Gharar, inattentiveness, and opacity due to limited expertise. Mollah and Zaman (2015), Nomran and Haron (2019), and Aslam and Haron (2020) report that boards with more members are associated with better financial performance. Abdallah and Bahloul (2021) add that broader Committee membership often brings greater innovation and expertise, driving profitability.

Therefore, this study proposes the first hypothesis:

H1: The size of the Shariah Committee positively shape the financial outcome of Islamic banks.

Frequency of Shariah Committee Meetings

Meetings of the SC held with the aim of reviewing all transactions in accordance with Shariah standards, which reflect high transparency. Otherwise, the SC is in charge of identifying specific issues and eliminating fraudulent transactions. Clause 11.2 of SGPD 2019 talks about SC meetings. It says that, at minimum, IBs must have their meetings at least once every two months. The minimum requirement for meeting frequency leaves room for interpretation, potentially leading to conflicts within the SC due to arbitrary, personal, and unreviewed decisions. SCs must meet every day to prevent conflicts and to continue serving the requested verification of IB transactions because of the vast array of duties, obligations, and burdens they bear toward other stakeholders (Karim, 1990; Haddad and Souissi, 2022). While empirical research on SC meeting frequency and Islamic bank performance remains limited, analogies from governance literature offer useful insights: Studies on Audit Committee meetings suggest a positive link between meeting frequency and financial performance, driven by better oversight and fraud prevention (Hsu, 2007; Abbott et al., 2004; Gendron &

Bédard, 2006; Lin et al., 2006). Conversely, some findings such as those by Awingburi & Prince (2019), Cornett et al. (2009), and Hsu & Petchsakulwong (2010) report diminishing returns or negative effects, potentially due to overburdening management. Other research (Al-Matari et al., 2014; Käréb & Belgacem, 2023; Kateb et al., 2025) finds no statistically significant impact, with certain bank groups (AAOIFI-compliant IFIs) even showing slightly lower ROA with high meeting frequencies possibly due to managerial overload. In studies focusing on Shariah Advisory Boards directly, a positive correlation has been observed between meeting frequency and performance, with more frequent sessions yielding quicker issue resolution and stronger financial outcomes (e.g., Shittu et al., 2016; Nowroz, 2018; Baklouti, 2020; Fitriana et al., 2019).

Therefore, this study proposes the second hypothesis:

H2: The frequency of meetings held by Shariah Committee positively shape the financial outcome of Islamic banks.

Educational Qualification of Shariah Committee

IBs can only appoint individuals who are Shariah-qualified or experts with the necessary training, expertise, and experience to be their SC members. Clause 12.2 of SGPD 2019 explains in detail the meaning of a Shariah-qualified person. The SC's minimum educational qualification is a bachelor's degree in Shariah, which includes studies of *Usul Fiqh* (principles of Islamic jurisprudence) and *Fiqh Muamalat* (Islamic transaction and commercial law). SC members are responsible for forming an independent opinion based on their reviewing new products, business initiatives, revised processes, contracts, and transactions for compliance with Shariah standards, approving main investment funding sources, allocating profit distributions, and handling loss charges relating to investment accounts, reporting any non-Shariah-compliance events, disposing of impermissible gains, and disclosing the bank's financial statements along with zakat calculations. The SC automatically decides on a matter if the text of the Quran provides a clear solution. The SC will adopt its view if the core wording is ambiguous and subject to interpretation. The SC turns to the member's conscience in the field of *Fiqh Ijtihad* if the Quran contains no indication. In this instance, the SC adheres to Shariah regulations while being guided by their moral convictions and duties to their peers. To guarantee Shariah compliance, the SC needs to be well-versed and experienced. The views of the SC must be unquestionable and constant. According to Ullah and Khanam (2018), a bank's financial performance may be impacted if its transactions are inconsistent with Shariah regulations. Studies show a positive correlation between board member qualifications and corporate performance (Kakabadse et al., 2010; Haniffa & Cooke, 2002; Cheng et al., 2010). Highly qualified members especially those with doctoral credentials may be viewed as strategic resources and contribute to an organization's competitive advantage (Ingley & Van der Walt, 2001; Farook et al., 2011; Rahman & Bukair, 2013).

Therefore, this study proposes the third hypothesis:

H3: The educational qualifications of Shariah committee positively shape the financial outcome of Islamic banks.

Remuneration of Shariah Committee

Although the SGPD 2019 does not explicitly mention remuneration for SC members, the earlier SGF 2010, under Section II (Oversight, Accountability & Responsibility), Clause 2.6, states: that the board shall remunerate the Shariah Committee members appropriately. However, Grais and Pellegrini (2006) contend that the Shariah Supervisory Board may not remain independent in carrying out in their duties when they receive remuneration from the same institutions they oversee. The contradiction between maintaining Shariah-compliant governance and promoting the bank's profitability may also have an impact on the Shariah Supervisory Board, according to Alman (2012).

Therefore, this study proposes the fourth hypothesis:

H4: The amounts of Shariah Committee remuneration positively shape the financial outcome of Islamic banks.

Summary of Literature Review

Table 1 summarized the literature review on How Shariah Committee Features Shape Financial Outcomes of Islamic Banks.

Table 1

Summary of Literature Review

Author (Year)	Period	Sample	Country	Findings
Abdullah (2012)	-	-	-	The study found that SSB was the most important governance body in the framework of Islamic banking and finance.
Abdallah and Bahloul (2021)	2012 - 2019	47 IBs	MENA & South Asia	The study found that ROA and ROE were positively impacted by BOD and AC as well as BOD and SSB.
Alman (2012)	2000 - 2010	82 IBs	GCC and Non-GCC	The study found that a larger SSB, the presence of highly regarded Shariah scholars with various board memberships, and yearly changes in SSB composition all boost the risk-taking of loan portfolios in IBs.
Almutairi and Quttainah (2017)	1993 - 2014	82 IBs	MENA & South Asia	The study found that larger corporate boards and SSBs are more effective at monitoring and advising than smaller ones.
Aslam and Haron (2020)	2008 - 2017	129 IBs	MENA & South Asia	The study found that ROA and ROE were positively by AC and SB, and negatively impacted by BOD size and the risk management committee. CEO duality and non-executive directors are not entirely consistent.
Badshah et al. (2021)	2012 - 2018	20 IBs	Arab and Non-Arab countries	The study found that asset performance was positively impacted by SSB and AC and negatively impacted by equity performance.
Baklouti (2020)	2011 - 2018	42 IBs	MENA, South Asia & Europe	The study found that banking performance was positively impacted by large sized BOD dan the number of SSB meetings and negatively impacted by cross mandate. No performance was impacted by the SSB members' competence and reputation and the proportion of women sitting in SSB.

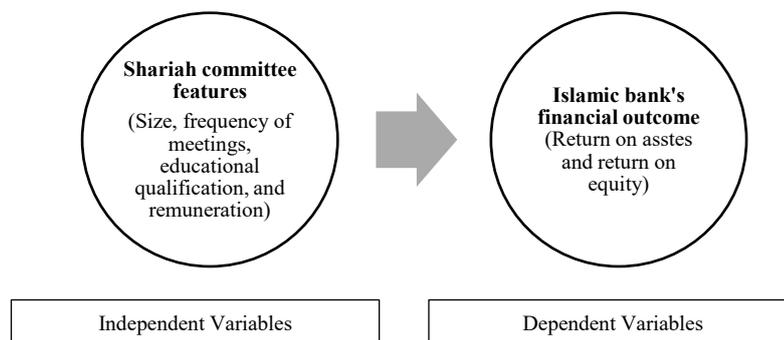
Fitriana et al. (2019)	2012 - 2017	8 IBs	Indonesia	The study found that financial performance was positively impacted by the number of DPS supervision days.
Haddad and Souissi (2022)	2010 - 2019	180 IBs	56 countries	The study found that financial performance was positively impacted by the size of SAB, member's mastery of Shariah principles, and the number of meetings, and negatively impacted by the member's competence in Islamic accounting and finance.
Haron et al. (2021)	2010 - 2018	15 IBs	Malaysia	The study found that financial performance was positively impacted by the SB education, SB reputation, and SB expertise, and negatively impacted by the SB remuneration and SB cross membership and not significantly impacted by the SB size.
Kateb et al. (2025)	2010 - 2016	50 IBs	MENA	The study found that financial performance was positively impacted by AC independence and negatively impacted by the size of SAB and having at least one member on the AAOIFI, and not significantly impacted by the size of AC, meeting frequency, and BOD characteristics.
Matoussi and Grassa (2012)	2000 - 2009	77 IBs	GCC & Southeast Asian	The study found that financial performance was positively impacted by having scholars with accounting or finance knowledge on the SB.
Nomran et al. (2018)	2008 - 2015	15 IBs	Malaysia	The study found that financial performance was significantly impacted by the SSB characteristics (size, cross-membership, doctoral qualification, reputation, experience and total change in the SSB composition).
Rahim et al. (2024)	2016 - 2018	351 IBs	Malaysia & GCC	The study found that Malaysian IBs have disclosed Shariah governance at a higher level than those in the GCC. The most powerful factor influencing IBs' financial performance is SC, one of the five Shariah governance disclosure tools.
Wijayanti and Setiawana (2023)	2018 - 2021	136 IBs	Worldwide	The study found that sustainability reporting was positively impacted by the size and independence of the BOD, the size of the SSB, and cross-membership, and negatively impacted by the board meetings of the BOD.

Source: Developed for this study

SSB=Shariah Supervisory Board, SAB=Shariah Advisory Board, SB=Shariah Board, DPS=Dewan Pengawas Shariah, SC= Shariah Committee, BOD=Board of Director, AC=Audit Committee, IB=Islamic Bank

Proposed Conceptual Model

The study's suggested conceptual model is based on the theories of agency.



Source: Developed for this study

Figure 1: Proposed Conceptual Framework

Research Method

Sample Selection

In this study, regression analysis conducted used data from 15 IBs covering the period from 2019 to 2023. The data collected from the published annual reports of the respective IBs, which are publicly available on their official websites. The statistical analysis performed using IBM SPSS Statistics Version 31. Table 2 summarized the list of IBs in Malaysia.

Table 2

List of Malaysian Islamic banks

No.	Name of Islamic banks	Ownership	Structure
1.	Affin Islamic Bank Berhad	Local	Islamic Window
2.	Alliance Islamic Bank Berhad	Local	Islamic Window
3.	Ambank Islamic Berhad	Local	Islamic Window
4.	Bank Islam Malaysia Berhad	Local	Fully operational Islamic
5.	Bank Muamalat Malaysia Berhad	Local	Fully operational Islamic
6.	CIMB Islamic Bank Berhad	Local	Islamic Window
7.	Hong Leong Islamic Bank Berhad	Local	Islamic Window
8.	HSBC Amanah Malaysia Berhad	Overseas Branch	Islamic Window
9.	Kuwait Finance House (Malaysia) Berhad	Foreign	Fully operational Islamic
10.	Maybank Islamic Berhad	Local	Islamic Window
11.	MBSB Bank Berhad	Local	Fully operational Islamic
12.	OCBC Al-Amin Bank Berhad	Overseas Branch	Islamic Window
13.	Public Islamic Bank Berhad	Local	Islamic Window
14.	RHB Islamic Bank Berhad	Local	Islamic Window
15.	Standard Chartered Saadiq Berhad	Overseas Branch	Islamic Window

Source: Developed for this study

Variables Description and Measurement

In this study, the independent variable is the SC features, while the dependent variable is the financial outcome of IBs. Table 3 and 4 summarized the description and measurement of dependent and independent variables.

Table 3

Description and Measurement of Independent Variables

No	Variables Description (Shariah Committee features)	Indicators	Variables Measurement
1.	Size of Shariah Committee	SC_SIZE	Total number of Shariah Committee members
2.	Frequency of Shariah Committee meetings	SC_MEET	Total number of Shariah Committee meetings held in a financial year
3.	Educational qualification of Shariah Committee	SC_EDU	Number of Shariah Committee members holding a PhD degree
4.	Remuneration of Shariah Committee	SC_REM	Total remuneration paid to Shariah Committee members (in RM'000)

Source: Developed for this study

Table 4

Description and Measurement of Dependent Variables

No	Variables Description (Financial Outcome)	Indicators	Variables Measurement
1.	Return on Assets	ROA	Net Profit / Total Assets
2.	Return on Equity	ROE	Net Profit / Total Equity

Source: Developed for this study

Regression Equation

To evaluate the hypotheses and assess the shape of the independent variable on the dependent variables, the following regression equations were employed as in Table 5.

Table 5

Regression Equations

No	Model	Equations
1.	ROA	$ROA_{i,t} = \alpha_i + \beta_1 SC_SIZE_{i,t} + \beta_2 SC_MEET_{i,t} + \beta_3 SC_EDU_{i,t} + \beta_3 SC_REM_{i,t} + \epsilon_{i,t}$
2.	ROE	$ROE_{i,t} = \alpha_i + \beta_1 SC_SIZE_{i,t} + \beta_2 SC_MEET_{i,t} + \beta_3 SC_EDU_{i,t} + \beta_3 SC_REM_{i,t} + \epsilon_{i,t}$

Source: Developed for this study

With: ROA: profit after tax/total assets; ROE: profit after tax/total equity; *i*: Islamic banks; *t*: years; SC_SIZE: the number of Shariah committee members; SC_MEET: the frequency of Shariah committee meetings held in a financial year; SC_EDU: the number of Shariah committee members holding a PhD degree; SC_REM: the total remuneration paid to Shariah committee members (in RM'000); ϵ : error term.

Result*Descriptive Statistics Analysis*

This study analysed 75 observations comprising 15 Islamic banks in Malaysia over a five-year period from 2019 to 2023. The results of descriptive statistics for the variables shown in Table 6. The mean ROA and ROE are 0.6573% and 8.4036%, respectively. The highest ROA of 1.68% recorded by HSBC Amanah Malaysia Berhad in 2023, while the lowest ROA of -0.62% reported by Kuwait Finance House (Malaysia) Berhad in 2019. The maximum ROE of 23.16% achieved by Maybank Islamic Berhad in 2019, whereas the lowest ROE of -3.29% also recorded by Kuwait Finance House (Malaysia) Berhad in 2019. Among selected IBs in

Malaysia, Maybank Islamic Berhad stands out in terms of SC features. It appointed the highest number of members (8), convened the most meetings in a financial year (30), had the highest number of members with PhDs (7), and paid the highest SC remuneration (RM 1,218,000). On average, a SC in this study has the following features: SC_Size: 5.36 members – approximately 5 members per bank, SC_Meet: 11.85 meetings per year – about 12 meetings annually, SC_Edu: 3.92 a PhD-qualified members – roughly 4 members holds PhDs, and SC_Rem: RM515,000 total annual remuneration.

Table 6

Descriptive Statistics

Variable	N	Min	Max	Mean
ROA	75	-0.62	1.68	0.6573
ROE	75	-3.29	23.16	8.4036
SC_Size	75	3	8	5.36
SC_Meet	75	6	30	11.85
SC_EDU	75	2	7	3.92
SC_REM	75	199.0	1,218.0	515.320

Source: Developed for this study

Regression Analysis Results

Table 7 presents the regression results assessing the shape of SC features on the financial outcome of IBs. The results indicate that only the SC frequency meeting has a positive and significant shape on financial outcome of IBs, with a p-value 0.031 for ROA, and <0.01 for ROE, both below the 0.05 significant level. This suggests that other SC features do not have a statistically significant shape on the financial outcome of IBs, whether measured by ROA or ROE. Table 8 summarized the regression analysis.

Table 7

Regression Analysis

Variable	ROA		ROE	
	Coefficient (β)	p-value	Coefficient (β)	p-value
SC_Size	-0.036	0.821	0.105	0.428
SC_Meet	0.302	0.031	0.501	<0.001
SC_EDU	0.047	0.749	0.059	0.629
SC_REM	-0.035	0.802	0.080	0.484

Source: Developed for this study

Table 8

Summary of Regression Analysis

Variable	Total Banks		Local Banks		Window Banks	
	ROA	ROE	ROA	ROE	ROA	ROE
SC_Size	×	×	×	×	×	×
SC_Meet	√	√	√	√	×	√
SC_Edu	×	×	×	×	×	×
SC_Rem	×	×	×	×	×	×

√ - significant, × - not significant

Source: Developed for this study

Hypothesis Testing Outcome

The analysis reveals that only the SC frequency meeting has a positive and significant shape on financial outcome of IBs. Thus, the H2 accepted while the H1, H3, and H4 rejected. Table 9 summarized the hypotheses of testing outcome.

Table 9

Summary of Hypotheses Testing Outcome

No	Hypothesis	Decision
H1	The size of Shariah Committee positively shapes the financial outcome of Islamic banks.	H1 is rejected
H2	The frequency of meetings held by Shariah Committee positively shapes the financial outcome of Islamic banks.	H2 is accepted
H3	The educational qualification of Shariah Committee positively shapes the financial outcome of Islamic banks.	H3 is rejected
H4	The amount of Shariah Committee remuneration positively shapes the financial outcome of Islamic banks.	H4 is rejected

Source: Developed for this study

Discussion

Impact of Frequency Shariah Committee meetings on Financial Performance

The main findings of this study, which investigates the shapes of SC meeting frequency on the financial performance of 15 Islamic banks in Malaysia over the period 2019 to 2023, indicate that a higher frequency of meetings has a positive and significant shape on financial outcome, measured by ROA and ROE, across the overall sample, as well as within local and window Islamic banks.

These findings suggest that frequent SC meetings play a pronounced role in enhancing returns to equity holders (ROE) and improving overall asset efficiency (ROA). In other words, the frequency of these meetings positively shapes how effectively the bank generates profits from its total resources and delivers returns to its shareholders.

A higher frequency of SC meetings fosters healthy discussions, active participation, and more meaningful contributions from committee members. This facilitates thorough review and validation of new products, business initiatives, and operational enhancements to guarantee complete adherence with Shariah laws and guidelines. Frequent meetings also enable the timely approval of key funding sources and investment activities in alignment with Shariah guidelines. Shariah Committee engagement was crucial in assessing initiatives such as the rescheduling and restructuring of Islamic financing facilities, as well as the adoption of financial technologies (fintech) such as mobile banking and e-wallet platforms. These regular meetings allow for faster Shariah decision-making, which helps ensure that business activities are carried out with minimal Shariah compliance risks. Ultimately, this leads to improved financial outcomes and favourably impacts Islamic banks' overall performance by enhancing their credibility and reliability in safeguarding shareholders' equity.

For example, Maybank Islamic Berhad (local and window) conducted the highest number of Shariah Committee meetings, ranging from twenty-six (26) to thirty (30) annually, compared

to other banks, which held between six (6) to twenty (20) meetings during the five (5) year study period. In 2020, despite the COVID-19 movement control order (MCO) that was put into effect and the regulatory minimum of six (6) meetings per year as stipulated in Clause 11.12 of the SGPD 2019, Maybank Islamic Berhad convened thirty (30) meetings. This high frequency of meetings helped Maybank Islamic Berhad maintain a strong financial performance, recording a ROE 12.67% throughout the COVID-19 crisis, outperforming most of its competitors who recorded ROE figures below 10% in the same year.

The results of this study align with earlier studies by Haddad & Souissi (2022), Baklouti (2020), Fitriana et al. (2019), and Shittu et al. (2016), who all found a strong positive correlation between the number of SC meetings and the financial performance of Islamic banks. However, it contradicts Malik et al. (2024), who found no significant correlation.

Conclusion

This study has certain limitations as it uses only ROA and ROE as performance indicators. Exploring additional metrics could provide deeper insights into performance. Therefore, future research should consider including these metrics into consideration. This study offers both theoretical and contextual contributions to the existing body of knowledge on Shariah governance and Islamic banking performance. Theoretically, this research extends the application of agency theory perspectives to the specific context of Shariah governance within Islamic banks. While prior studies have broadly examined Shariah Supervisory Board characteristics, limited attention has been given to disentangling which specific features of the Shariah Committee (SC) are most effective in mitigating agency conflicts and enhancing financial outcomes, particularly in the post-regulatory reform and post-pandemic period. By providing updated empirical evidence from 2019–2023, aligned with the implementation of the Bank Negara Malaysia's Shariah Governance Policy Document 2019, this study refines the theoretical understanding of how governance mechanisms operate in dual-accountability environments, where Islamic banks are accountable not only to shareholders but also to Shariah principles. The finding that meeting frequency, rather than structural attributes such as size or educational qualifications, significantly shapes financial performance. Instead, it highlights the importance of active engagement and monitoring intensity as the key mechanism through which agency problems are mitigated in Islamic banking settings.

Contextually, the results are particularly relevant for policymakers and practitioners in Malaysia, as they provide evidence-based support for emphasizing the quality and frequency of SC engagement rather than merely complying with minimum structural requirements. In doing so, the study enhances practical understanding of how SC features translate into measurable financial outcomes (ROA and ROE) and reinforces Malaysia's position as a reference model for effective Shariah governance. Collectively, the research strengthens the linkage between governance theory and real-world Islamic banking practice, offering meaningful implications for other jurisdictions seeking to enhance the effectiveness of their Shariah governance frameworks.

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