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IMPACT OF SHARI'AH BOARD DISTINCT CHARACTERISTICS ON ISLAMIC BANK'S PERFORMANCE: A CASE STUDY OF PAKISTAN

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ABSTRACT

The aim of this research paper is to study the impact of different shari'ah board characteristics on the financial performance of the Islamic banks. To investigate the relationship between the shari'ah board's characteristics and the bank performance, regression analysis is performed by using a panel data collected from 17 Islamic banks over the period of five years from 2015-2019. Six shari'ah board characteristics were selected as explanatory variables which are board size, qualification, expertise, affiliation, cross-membership and meetings. The results show that size, qualification, expertise and cross-memberships have a significant association with Islamic banks performance. However, the other two variables do not show any influence on the bank's performance. This research paper is aimed to provide a new insight to the shari'ah board characteristics by analyzing data about Islamic banking of the Pakistani banks.

Keywords: Profitability, Shari'ah board, Pakistan, Islamic bank.

1. INTRODUCTION

The foundation of Islamic banking and finance industry is laid on shari'ah. Therefore, it is believed that shari'ah governance is a major difference between a conventional and an Islamic bank (IB). IB's work on interest-free modes and offer services similar to interest-based banks, however, shari'ah compliance is considered while performing all these activities This mechanism of corporate governance in Islamic banks makes it distinct from the conventional banks. It is the responsibility of IB's to ensure the shari'ah compliance in its operations.

IB sector has grown rapidly over the past few decades. This growth has not only brought the attention of Muslims but also non-Muslims towards this riba free system. Islamic financial industry is developing on a fast pace due to the high demand of an interest free system. There is an increase in the growth every year from 16% to 20% (Schmith, 2005). With this development of IB, it has also attracted an ordinary person, investor as well as the industrial community towards itself and made shari'ah governance a significant term which has to be known by the researchers (Mizushima, 2014). Shari'ah governance mainly depend upon the presence of an effectual shari'ah board which helps to oversee the banking activities. The appropriate shari'ah guidelines and the high standards of working tools under such governance help banks in performing their assigned duties in lieu of Islamic laws. It is important to follow the shari'ah governance regulations while developing a sustainable Islamic financial market.

The salient feature of shari'ah governance is the shari'ah board, which is composed of muslim scholars. These scholars worked together based on the principles of justice and equality (Hassan, Rizwan, & Sohail, 2017). The shari'ah board members work along with the board of directors, executive management and other team members by following shari'ah governance framework in their decisions. Therefore, it is known as ''multi-layer'' governance. The shari'ah board act as an additional layer, who is responsible to manage all the activities according to the guidelines approved by shari'ah compliance (Mollah & Zaman, 2015).

Members of shari'ah board also worked together to prevent the rights of shareholders as well as keeping the IB's away from those actions which can violate the shari'ah rules (Ramly, Datuk, & Nordin, 2018). They also issue fatwas to direct and control the risk associated with shari'ah management Therefore, it is crucial to measure the financial performance of IB's to know the availability of capital present and its usage (Badreldin, 2009).

In Pakistan, IB is introduced two decades ago because of its rising demand in both religious and in economic sector. The central bank of Pakistan, the State bank of Pakistan has established an Islamic banking department to look over the Islamic banking regulations and their promotions (Awan, 2009). Later, the detailed shari'ah governance framework is introduced by SBP to make sure its customers that IFI's are running as per shari'ah rules. SBP has issued instructions, regulations to guaranteed that all transactions are according to the standards of shari'ah (Saba, 2018). Considering the importance of Islamic banking above, it is substantial to measure the IB's performance to discover whether the bank is carrying out the safety requirements approved by the banking standards in its operations. In IBs, the financial performance measurement also helps shari'ah boards to make sure about the available details of the capital and its uses (Badreldin, 2009). The financial performance measures are divided into two major categories. Firstly, an accounting-based measures such as return on assets (ROA) and return on equity (ROE). Secondly, a market-based measures which include Tobin's Q (TQ) ratio and Market value-added (MVA). These measures are used to evaluate the firm's financial performance.

In Pakistan, there are only a few researchers who have studied Islamic banking and its performance. Until now, no research study has been conducted by Pakistani scholars to analyze the impact of SB characteristics on IB's performance. Therefore, this study has an objective to add findings related to SB characteristics that has a positive effect on IB's performance.

2. REVIEW OF LITERATURE AND HYPOTHESES DEVELOPMENT:

The word "Banking" is a generic term and does not indicate the type of services available to the customers. The terminologies such as "conventional" or Islamic that precedes banking system determine the nature of the bank activities. The banking operations and services provided to the customers are according to the shari'ah laws.

In the last few decades, the subject of shari'ah governance has been studied by many foreign researchers. Studies on shari'ah board's characteristics by Pakistani scholars is not only limited, but it also lacks any research that has been conducted to investigate this topic. There is an ample of literature available by foreign scholars related to shari'ah governance but only few of them has discussed the impact of different characteristics of the shari'ah board on IB's performance. IB's performance has been investigated among different studies carried out on foreign banks to see its relationship with shari'ah board's attributes. Different variables were used which include shari'ah board size, cross-membership, education level, expertise and reputation (Grassa 1 & Matoussi, 2014a), (Mollah & Zaman, 2015), (Nomra, Haron, & Hassan, 2017), (Musibah & Alfattani, 2014).

The empirical study conducted by using data taken from 14 countries for 47 banks. They reported that shari'ah board members with cross-memberships, international affiliations and Ph.D. qualifications are able to monitor the banks more efficiently (Farook & Lanis, 2007). In another study results explained that number of SB meetings, qualification and evaluation has a positive effect on IFI's performance (Garas, 2010). A study was done by Rouf to see the relationship between CG mechanism (board size, independent director on board, CEO duality and board audit committee) and firm's value (ROA, ROE) in developing countries. He reported a positive relation between firm's value and CG characteristics (boards independent director and CEO duality) (Rouf, 2011).

In 2012, Abbasi et al. carried out the research to find out an impact of CG characteristics on firm's value by using the data from 2002 to 2011 for the listed food companies on Tehran stock exchange. Strong relationship is found among the CG characteristics and firm's value because all of these attributes help in monitoring and making CG effective (Abbasi, Kalantari, & Abbasi, 2012). Mollah and Zaman compared board characteristics between Islamic and conventional banks by examining shari'ah supervisory board size, board

of director's structure and CEO's power on the bank's financial performance. It was found through the statistical regression test that small board size brings more profit in comparison to the larger boards because they tend to be ineffective towards performance (Mollah & Zaman, 2015).

An empirical analysis conducted by selecting a sample of 25 banks including large and small banks from Malaysia and Indonesia over the period of 2007-2015. It was observed that SB characteristics had a positive impact on bank's financial performance in large banks, as compared to small banks (Nomra, Haron, & Hassan, 2017).

A comparative analysis conducted by Quttainah et. al compared the impact of corporate governance (CG) on the financial performance of Islamic banks having shari'ah boards with those having no shari'ah boards. The analyzed results showed that IBs with shari'ah boards displayed better performance through direct, control and monitoring over their staff in an effective way than others (Quttainah, Cocco, & Al-Zufairi, 2017).

In another study Fakhruddin and Jusoh selected sample of 13 Indonesian Islamic banks to identify and explore the influence of SB characteristics (experience, meetings, and cross-membership) and its impact on shari'ah compliance of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) disclosure. It was reported that cross-membership had a positive effect, while the meeting and experience of SSB had an adverse impact on the shari'ah compliance disclosure (Fakhruddin & Jusoh, 2018).

Khan et al. investigated the impact of the size of shari'ah governance board on Islamic bank's performance by using data from four South Asian countries. The results indicated that higher CGI scores for Bangladesh because it consists of large shari'ah board, corporate boards, board independence, and board meetings as compared to others (Khan, Zahid, & Akhtar, 2018). Meutia et al. examine the different shari'ah board characteristics such as SB size, SB meetings, SB education and dual SB positions and their effect on Islamic Social Reporting (ISR). It was concluded that some of the shari'ah board characteristics such as number of SB meetings, duality in SSB positions, SB size and profitability affecting the performance (Meutia, Aryani, & Widyastuti, 2019).

From the literature cited above, it is clear that it is crucial to assess the bank's performance for the selection of a specific path in the time ahead. Generally, most of the above-mentioned studies have addressed the impact of shari'ah board determinants on profitability of Islamic banks internationally with the help of different statistical techniques. However, this study would be the first to fill the gap in Pakistani literature by analyzing the impact the shari'ah board distinct characteristics on the profitability of Islamic banks of Pakistan.

2.1 Shari'ah board size:

According to the state bank of Pakistan, each Islamic bank must have a shari'ah board which consist of atleast three members who are employed as chairman of shari'ah Board, member shari'ah board and resident shari'ah board member. With regard to the board size, Mollah and Zaman in their study concludes that small shari'ah boards are appeared as the profit makers in IB (Mollah & Zaman, 2015). Andres and Vallelado also reported that bank's performance has a positive association with the board size. (Andres & Vallelado, 2008). Hence the hypothesis becomes:

H1=SB size is positively associated with Islamic bank's performance.

2.2 Shari'ah board qualification:

Qualification of shari'ah board members represent their skills and overall effectiveness of the board (Kakabadse, Yang, & Sanders, 2010). Performance is positively associated with qualified members (Haniffa & Cooke, 2002). If these members are qualified with Islamic degrees, they could solve the issues by providing Islamic layout according to the shari'ah compliance (Farook & Lanis, 2007). Therefore, the hypothesis for the variable becomes:

H2=SB qualification is positively associated with Islamic bank's performance.

2.3 Shari'ah board expertise:

Shari'ah board members with other expertise and knowledge such as in accounting and finance are able to perform their duties in an efficient manner (Rahman & Bukair, 2013). This knowledge will increase the Islamic bank's performance as well (Grassa, 2016). Hence, it is hypothesized that:

H3=SB expertise in other fields is positively associated with Islamic bank's performance.

2.4 Shari'ah board cross-membership:

It allows the shari'ah board members to procure awareness regarding other financial institutions (El-Halaby & Hussainey, 2016). It helps in making progress in bank's performance by improving the actions with available knowledge and experiences (Grassa 1 & Matoussi, 2014a). Therefore, we hypothesize that:

H4=SB cross-membership is positively associated with Islamic bank's performance.

2.5 Shari'ah board affiliation:

Shari'ah board scholars with AAOIFI affiliation or having any international accreditation are those having knowledge both in Islamic world and Islamic finance (Bakar, 2016).

Members having international affiliations are able to understand the moderen techniques applicable in Islamic banks (Rahman & Bukair, 2013). Therefore, the hypothesis becomes:

H5=SB affiliation with AAOIFI is positively associated with Islamic bank's performance.

2.6 Shari'ah board meetings:

Shari'ah board members must arrange meetings frequently to discuss the issues related to firm's performance. Board members, shareholders and employee's moral values and loyality also enhanced by regular meetings (Vafeas, 2003). It helps in keeping the control over transactions carried to take major decisions (Ntim, Soobaroyen, & Broad, 2017).

Therefore, the hypothesis for the above variable becomes,

H6=SB number of meetings are positively associated with Islamic bank's performance.

3 DATA AND METHODOLOGY:

3.1 Sample:

The sample of our study is composed of 17 listed Islamic banks over the period of 5 years between 2015 and 2019. Data was collected from the annual reports of IB's.

3.2 Measures of dependent and explanatory variables:

Corresponding to prior literature, the dependent variable is the performance which is measured by using two proxies i.e.accounting and market-based performance measures. Accounting based measures include return on assets (ROA) and return on equity (ROE) while market-based measures include Tobin's Q (TQ) and market value added (MVA). The explanatory variables used in this study include board size, qualification, expertise, affiliation, cross-membership and meetings. The full descriptions of the explanatory variables are in Table 1:

Table 1 Explanatory variables, measurement, hypothesis and expected signs:

VARIABLES	DEFINITION	MEASUREMENTS
ROA	Return on assets	Net Income / Total Assets *100
ROE	Return on equity	Net Income / Total Equity *100
MVA	Market value-added	Equity market value - Equity book value
TQ	Tobin's Q	Market Value of Firm / Total shareholder's equity
SB SIZE	Shari'ah Board size	The number of members appointed
SB QUAL	Shari'ah Board qualification.	Mufti Degree.
SB EXPER	Shari'ah Board expertise	Engaged in other fields, like accounting and finance.
SB CRMEMP	Shari'ah Board cross-membership	Member of the shari'ah board in a different bank as well.
SB AFFIL	Shari'ah Board affiliation	Their affiliations with AAOIFI
SB MEET	Shari'ah Board meetings	The number of meetings held in a year by sharia board
SIZE	Bank size	Natural log of total assets
AGE	Age of bank	In years: 10 or more = 1; less than 10= 0
LEV	Leverage ratio	Total capital/total asset

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3.3 Specification of model for the study:

The models below are proposed to examine the influence of different shari'ah board's characteristics on the financial performance of Islamic banks:

$Performance_{it}$

$ROA_{it}= \beta_0+\beta_1 SBSIZE_{it}+\beta_2 SBQUAL_{it}+\beta_3 SBEXPER_{it}+\beta_4 SBCRMEMP_{it}+\beta_5 SBAFFIL_{it}+ \beta_6 SBMEET_{it}+\beta_7 SIZE_{it} +\beta_8 AGE_{it}+ \beta_9 LEV_{it}+ \varepsilon$

$ROE_{it}= \beta_0+\beta_1 SBSIZE_{it}+\beta_2 SBQUAL_{it}+\beta_3 SBEXPER_{it}+\beta_4 SBCRMEMP_{it}+\beta_5 SBAFFIL_{it}+ \beta_6 SBMEET_{it}+\beta_7 SIZE_{it} +\beta_8 AGE_{it}+ \beta_9 LEV_{it}+ \varepsilon$

$MVA_{it}= \beta 0+\beta_1 SBSIZE_{it}+\beta_2 SBQUAL_{it}+\beta_3 SBEXPER_{it}+\beta_4 SBCRMEMP_{it}+\beta_5 SBAFFIL_{it}+ \beta_6 SBMEET_{it}+\beta_7 SIZE_{it} +\beta_8 AGE_{it}+ \beta_9 LEV_{it}+ \varepsilon$

$TQ_{it}= \beta 0+\beta_1 SBSIZE_{it}+\beta_2 SBQUAL_{it}+\beta_3 SBEXPER_{it}+\beta_4 SBCRMEMP_{it}+\beta_5 SBAFFIL_{it}+\beta_6 SBMEET_{it}+\beta_7 SIZE_{it} +\beta_8 AGE_{it}+ \beta_9 LEV_{it}+ \varepsilon$

The variables for the model are:

i=number of Islamic banks i.e. 17, t=time period from 2015 to 2019, Performance=Islamic bank's performance, ROA=return on assets, ROE= return on equity, MVA=market value-added, TQ= Tobin's Q, SBSIZE =SB size, SBQUAL =SB qualification, SBEXPER =SB expertise, SBCRMEMP =SB cross-membership, SBAFFIL =SB affiliation, SBMEET= SB meetings, SIZE= size of bank, AGE= bank's age, LEV=leverage

4 ANALYSIS AND FINDINGS:

4.1 Descriptive statistics:

Descriptive and inferential statistics techniques have been performed by using STATA to examine the above-mentioned hypothesis. This study involves the following results which are described below:

Table 2 Descriptive statistics:

Variable	Obs	Mean	Std.Dev.	Min	Max
SB_size	85	3.141	0.693	2	7
SB_qual (%)	85	88.268	20.43	14.28	100
SB_exp	85	0.929	0.258	0	1
SB_cm	85	0.458	0.301	0	1
SB_affi	85	0.141	0.35	0	1
SB_meet	85	4.176	1.037	1	9
ROA	85	0.872	0.653	-1.49	2.7
ROE	85	13.308	8.16	-14.83	30.66
TQ	85	1.059	.463	0.1	2.67
MVA	85	12664.95	78703.11	-141000	633000
Bank_size	85	13.289	1.064	10.19	16.23
Lev_ratio	85	5.326	4.169	2.38	30.03
Age	85	0.647	0.481	0	1

The results for the descriptive statistics of variables are shown in Table 2. With respect to the independent variables for the study, it is found that the average size of SB is 3.141 scholars on board. The mean value of scholars holding a mufti degree is 88.268%. On average, 0.929 scholars sitting in shari'ah boards are having both accounting and finance expertise. For the others variables, the mean for the shari'ah board's cross-membership is 0.458, shari'ah board's affiliation is 0.141.

Meeting has a mean value of 4.176. which shows that banks have approximately 4 meetings held per year on average.

With respect to the dependent variables, the ROA of 17 IB's for five years has been included in this study. ROA standard deviation is 0.653. The mean value of ROE is 13.308%. The variability of data in terms of standard deviation is 8.16. In addition, mean value for TQ is 1.059 respectively. MVA has a mean of Rs. 12664.95 million with a standard deviation of Rs. 78703.11 million over this period. Regarding the descriptive of control variables, bank size having meant of 13.289 ranges from 19.19 to 16.23. Age of a bank is 0.647 on average, with a minimum of 0 and a maximum of 1. Leverage ratio varies from 2.38 to 30.03.

4.2 Diagnostic tests:

Here, the econometric verification of the models will be performed by performing different diagnostic tests for multicollinearity, heteroscedasticity and autocorrelation. And if the model shows any of above characteristic, it will be removed by using different parameters. Firstly, we will check for multicollinearity, heteroscedasticity and then lastly autocorrelation:

4.2.1 Multicollinearity:

To check the existence of the multicollinearity issue in our data, Variance Inflation Factor (VIF) test was conducted. The VIF scores reported in Table 3 for the above model indicate that no score exceeds 10 for any explanatory or control variable. If the value of VIF exceeds 10, the variable is considered as to be highly collinear. Based on this, it is concluded that no problem was found regarding multicollinearity in our model.

Table 3 VIF Test Results

Variable	VIF	1/VIF
SB qual	2.09	0.478304
Bank_size	1.92	0.521277
SB size	1.90	0.525412
SB exp	1.81	0.552553
Lev_ratio	1.80	0.555741
Age	1.55	0.643940
SB cm	1.24	0.804288
SB affi	1.15	0.869531
SB meet	1.09	0.917100
Mean VIF	**1.62**	

4.2.2 Heteroscedasticity:

Based on the results of table 3, it is confirmed that our model does not have any problem of multicollinearity. For heteroscedasticity, we use modified wald test to deduct the problem of heteroscedasticity. And the results are presented in table 4 below.

Table 4 Wald Test Results

Models	P-Value
ROA	0.0000
ROE	0.0000
TQ	0.0000
MVA	0.0000

H_0 : There is no heteroscedasticity problem
H_1 : There is heteroscedasticity problem
Decision rule: The significance level is 5% (0.05), so reject H_0 if p-value is less than 5% because it indicates the problem of heteroscedasticity in the model.

Conclusion:

Here, the p value for all four models is 0.0000 which is less than 0.05, which means we accept H_1, and reject H_0. It means our model does have heteroscedasticity. This problem will be fixed by using clustered robust standard errors in fixed and random effects models.

4.2.3 Auto-correlation:

To check auto-correlation problem in our models, wooldridge test is used to identify the problem of autocorrelation. Results are presented in table 5 below:

Table 5 Wooldridge Test Results

Models	P-Value
ROA	0.0000
ROE	0.0006
TQ	0.0033
MVA	0.0000

H_0: There is no autocorrelation problem
H_1: There is autocorrelation problem
Decision rule: The significance level is 5% (0.05), so reject H_0 if p-value is less than 5%.

Conclusion: Here, we reject null hypothesis (H_0) for all four models, ROA, ROE, TQ and MVA because their p-values are lower than significance level (0.05), which means it has autocorrelation. We accept H_1, and reject H_0. This problem will be resolve by using clustered robust standard errors.

4.2.4 Model Selection:

In order to choose between random and fixed effects models, hausman test is performed which is used for model selection. It determines in choosing the better model between random effect and fixed effect. Here, hausman test results are presented below:

Table 6 Hausman Wu Test Results

Models	P-Value
ROA	0.0831
ROE	0.0000
TQ	0.0000
MVA	0.0000

H_0: Random effect model is better than fixed effect model

H_1: Fixed effect model is better than random effect model

Decision rule: The significance level is 5%, so reject H_0 if p-value doesn't exceed then 5%.

Conclusion: The results showed that fixed effect was preferred to random effect with p-value less than 5% level of significance for three models ROE, TQ and MVA. Therefore, the null hypothesis (H_0) was rejected which states that Random Effect Model (REM) is appropriate. However, REM is used for ROA which has a p-value more than 5%, so we accept H_0.

4.2.5 Cluster Robust Standard Error:

Robust Standard Error (RSE) is a method used to solve the problems related to auto-correlation and heteroscedasticity in data and helps in making the models constructive.

In this study, statistical software STATA is used to obtain the cluster robust standard errors by using command "xtreg cluster (BankCode)" to produce efficient and unbiased results for all four models.

4.3 Test of hypothesis:

Table 7 presents the regression results examining the impact of SB distinct characteristics on IB's performance based on developing four models including ROA, ROE, TQ and MVA. The R^2 value for these models is 27.80, 38.60, 3.64 and 25.71 respectively. These values indicates that the selected models are appropriate for this study and the parameters chosen are good for estimation of IB's performance. Four SB characteristics which are size. Qualification, expertise and cross-membership are found to be significantly affecting the performance.

A positive relationship is found between SB size and IB performance for models I and II, thus it supports the first hypothesis. This relationship indicates that SB helps IB's in improving their performance. But a negative relationship is reported for model III, whereas model IV has shown no significant association of SB size and performance. The findings are similar with the study of (Mollah & Zaman, 2015) and (Grassa 1 & Matoussi, 2014a). With respect to SB qualification, the coefficients are positively associated with performance for models I, II and III. Although these models are not showing any signs of significance but has a positive impact on IB performance. Hence, the second hypothesis is supported and results are consistent with that of (Musibah & Alfattani, 2014). SB expertise is reported to relate positively with IB performance for models I, II and III. Thus, the third hypothesis is supported. The results are consistent with the study of (Grassa, 2016).

Regarding the SB cross-membership, the coefficients are positively related to IB performance for all four models. All variables are showing a significant relationship which supports the fourth hypothesis. Results of our study are similar to (Farook & Lanis, 2007). SB affiliation is reported to relate negatively to IB performance for the models I, II and III. Therefore, the fifth hypothesis is not supported. The similar findings are reported by (Rahman & Bukair, 2013). SB meetings are showing a negative association with IB performance for all four models. Therefore, sixth hypothesis is not supported. (Fakhruddin & Jusoh, 2018) has also reported the similar results in their study.

For control variables, bank size and age are positively associated with IB performance. However, leverage ratio doesn't have any significant influence on IB performance.

Table 7 Regression Analysis Results

VARIABLES	(I) ROA	(II) ROE	(III) TQ	(IV) MVA
SB_size	0.225***	2.171*	-0.00890	15.449
	(0.0720)	(1.211)	(0.0523)	(18.552)
SB_qual	0.00346	0.0435	0.00183	-486.3
	(0.00279)	(0.0437)	(0.00323)	(555.8)
SB_exp	0.583	15.52*	0.00436	-31.772
	(0.438)	(8.460)	(0.147)	(46.376)
SB_cm	0.377***	5.681***	0.305**	25.174
	(0.102)	(1.689)	(0.147)	(27.220)
SB_affi	-0.258*	-3.522	-0.0549	28.324
	(0.155)	(2.601)	(0.196)	(26.811)
SB_meet	-0.124***	-1.726***	-0.0708*	-8.998
	(0.0459)	(0.589)	(0.0425)	(6.929)
Bank_size	0.234**	2.949*	0.000390	62.720
	(0.119)	(1.534)	(0.0534)	(45.073)
Lev_ratio	0.0544***	0.155	-0.00303	5.889
	(0.0125)	(0.182)	(0.00465)	(4.659)
Age	0.193	0.257	-0.0461	-20.565
	(0.308)	(3.738)	(0.154)	(30.321)
Constant	-3.830**	-46.85**	1.127	-792.908
	(1.654)	(21.17)	(0.805)	(602.585)
Observations	85	85	85	85
R-squared	0.2780	0.3860	0.0364	0.2571
Model	Random Effect	Fixed Effect	Fixed Effect	Fixed Effect

Note: *** significant at 1% (p<0.01), ** significant at 5% (p<0.05), * significant at 10% (p<0.1)

5. CONCLUSION, LIMITATION & RECOMMENDATIONS:

Shari'ah governance aids Islamic banks by adding value to their governance system in terms of trust, ethical behavior and faith. Shari'ah board is a major component of sharia governance structure. It plays an important role in the development and survival of Islamic banks by issuing fatwas and protecting the rights of shareholders. The introduction of shari'ah board in Islamic banks inculcates the modernization of the Islamic jurisprudence. It ensures that all the financial activities must be in accordance to the shari'ah rules and principles.

This study has empirically examined the different shari'ah board characteristics on the financial performance of Islamic banks of Pakistan. Thus, the results showed that four shari'ah board characteristics including size, qualification, expertise and cross-memberships revealed a positive relationship with the financial performance of Islamic banks. In contrast, affiliations and meetings doesn't have any significant influence on the Islamic bank's performance. The results are based on the regression analysis technique. From above analysis, it is concluded that in order to measure the Islamic banks financial performance, accounting-based measures are effective than market-based measures.

The empirical evidences highlighted in this study are concluding that Islamic banks has to appoint three scholars on average holding mufti degree as well to enhance the performance. Islamic banks are also advised to appoint members with both religious and business expertise. It will rise the banks equities by helping to earn more profit. Above results also investigated that cross-memberships increase the financial performance of

banks by providing more investment opportunities. These will provide more rewards by generating more returns for bank. In contrast, the affiliation affects the performance negatively.Similarly, as the meetings increases, the performance decreases.

To the best of our knowledge, this research study is the first which examined the impact of shari'ah boards different characteristics on the financial performance of Islamic banks in Pakistan. This study aims to fill the research gaps by providing new insight to the available literature. It focusses on the importance of shari'ah board which is helpful in understanding the relationship between shari'ah boards distinct features and Islamic banks performance. This study is valuable for the bank regulators and policymakers to find out the distinct characteristics that are useful in making the bank more profitable and to earn more returns.

However, this study has some limitations. Firstly, the availablity of data is of five years which has limited the study's findings and analyses to give a comprehensive result to see the shari'ah board impact on Islamic banks financial performance. Therefore, it is recommended that future research should take them into consideration and investigate those factors related to shari'ah governance framework that have not been covered in this study.

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