

Endogeneity between Shari'ah Governance and Board Governance and Its Impact on Financial Stability

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Abstract : This study aims to explore the endogenous relationship between Shari'ah governance and board governance for Islamic banks to identify complementary or substituting relationship between these governance parameters. By using a sample of 161 Islamic Banks from 24 countries for the period of 2005-2013, we show an endogenous relationship between Shari'ah Supervisory Board (SSB) and Board of Directors (BoD). In this relationship, SSB and BoD complement each other. We also show that this complementary relationship between SSB and BoD helps enhance both management and asset quality, but mitigates capital adequacy, earnings, and liquidity in Islamic banks. The study has important implications for financial stability in the Islamic banking system.

Keywords : Shari'ah Supervisory Board, Boards of Directors, Islamic banking, financial stability

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