





“Executives’ commitment, corporate governance, and performance of Islamic banks: Evidence from the Saudi context”

AUTHORS	Khaoula Aliani  Aysha Alsalih  Fadhila Hamza 
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Fadhila Hamza, 2022

Khaoula Aliani, Assistant
Professor, Business Administration
Department, College of Business and
Administration, Princess Nourah bint
Abdulrahman University, Saudi Arabia.

Aysha Alsalih, Assistant Professor,
Accounting Department, College of
Business and Administration, Princess
Nourah bint Abdulrahman University,
Saudi Arabia.

Fadhila Hamza, Assistant Professor,
Accounting Department, College of
Business and Administration, Princess
Nourah bint Abdulrahman University,
Saudi Arabia. (Corresponding author)



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Khaoula Aliani (Saudi Arabia), **Aysha Alsalih** (Saudi Arabia),
Fadhila Hamza (Saudi Arabia)

EXECUTIVES' COMMITMENT, CORPORATE GOVERNANCE, AND PERFORMANCE OF ISLAMIC BANKS: EVIDENCE FROM THE SAUDI CONTEXT

Abstract

This paper aims to investigate the impact of executives' ethical commitment and corporate governance on the Islamic banks' performance in the Saudi context. The sample of this study consists of Saudi Islamic banks over the period 2012–2020. The financial data were extracted from the Saudi stock exchange (Tadawul). While the behavioral data, particularly the executives' ethical commitment, is measured through the ethical commitment index. In the econometric analysis, a generalized least square regression method (GLS) is applied to two different sub-models with different dependent variables (return on assets and return on equity). Empirical results suggest that board size and board independence have a significant impact on bank performance. The ethical commitment of executives contributes positively and significantly to the performance of Islamic banks in terms of return on assets. However, there is no statistical evidence of the effect of ethical commitment on Islamic banks' returns on equity. Therefore, boards of directors of Islamic banks should include expert independent directors to promote best governance practices and enhance executives' commitment. Larger boards can improve their credit ratings and access to resources.

Keywords ethical commitment, performance, banking governance, GLS

JEL Classification C23, G21, G30, G41

INTRODUCTION

The subprime mortgage crisis, which started at the end of 2007, has revealed the fragility of conventional banks (CBs). Economists highlighted the emergency of implementing a new substitute to overcome risks. Islamic finance has been considered an alternative model to mitigate the effects of the financial crisis. In recent years, the Islamic industry has witnessed significant growth, partially due to the high demand of many Islamic countries for Sharia'-compliant products, as well as providing a diversity of financial instruments required by corporate and individual investors.

Islamic banks (IBs) operate based on Sharia rules. Indeed, products, instruments, operations, practices, and management have to be following Islam regulations. IBs have an ethical identity related to religion. Compliance with the Sharia principles will be achieved through a distinctive governance framework along with ethical commitment. To enhance the observance of business ethics, Islamic financial institutions should set an ethical culture that does not spurn the fundamentals of Sharia. Executives' commitment assists in predicting the failure of business ethics observance and strengthens the stakeholders' trust.

IBs have a complicated governance system compared to CBs. This complexity stems from the diversity of stakeholders having a direct interest in the performance and the survival of IBs. Robust corporate governance (CG) is a priority to provide a flourished atmosphere to enhance ethical commitment. The Sharia board is a supplementary mechanism of governance responsible for ensuring the compliance of bank transactions to Islamic ethics (Hakimi et al., 2018).

Previous studies on Islamic finance can be broadly divided into three categories:

- 1) Some focused on comparing the instruments used in CBs and IBs.
- 2) Other studies investigated risks in IBs.
- 3) The other stream of research examines the efficiency of IBs.

This study tries to identify the attributes of CG mechanisms in financial institutions, particularly the IBs, and how CG and the ethical commitment of executives affect performance.

The Saudi vision 2030 aims to achieve an advanced banking sector to support a thriving and sustainable economy. New growth opportunities are offered to financial institutions, and developing national and global leaders helps with achieving future expectations and requirements. The high commitment of executives is a pillar of performance outcome and job embeddedness. This study provides recent data and information on the actual CG system in IBs in Saudi Arabia and especially the extent to which IBs will be alienated and boost the vision 2030.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Previous literature has proven that bank performance fluctuation is affected by many elements such as cficeps-knab factors and behavioral aspects. The first part of the literature review will focus on the impact of ethical commitment on performance. The second part will examine the role played by banking governance in shaping the performance levels.

Over the last decades, the effect of managers' attitudes and behavior on firm performance has been widely investigated essentially in the setting of the Upper Echelon Theory (UET) (Finkelstein et al., 2009; Mahenthiran et al., 2015; Hamza et al., 2014). The prior study advanced by Hambrick and Mason (1984) focused on executives' cognitions, beliefs, values, and perceptions, and suggested that these personal features are important predictors of firms' strategic choices and other organizational outcomes.

Commitment to ethics is the basic concept and essential code of human conduct and belief. Commitment is defined as a link between individ-

uals' attitudes and actions, while ethics is defined as a code and rules that are found based on morality, and which let individuals distinguish between right and wrong (Ferrell et al., 2011). As advanced by Verschoor (1998), commitment to ethics is a firm's willingness to manage operations in respect and compliance with what has been written in its codes of ethical conduct.

Several studies (Pae & Choi, 2011; Fu & Jia, 2012; Wang & Berens, 2015; Fischer & Sawczyn, 2013) investigated the relationship between commitment to ethics and corporate social performance. Researchers show that high management compliance with ethics improves stakeholders' connections with the company, which improves performance.

In the context of Islamic financial institutions, researchers consider that the business ethics in Islamic finance have their origins in Sharia. Thus, several studies have discussed the association between commitment to ethics, especially, compliance with Sharia ethics, and the organization's performance (Mathkur, 2019; Nathie, 2009). Researchers such as Van der Merwe et al. (2003), Verschoor (1998), and Vogel (1991) find a positive link between corporate compliance with ethics and financial performance.

As the Islamic financial institutions' compliance with the Sharia ethics is mandatory, the consequences of non-compliance by several IBs show that it is essential to monitor and follow up IBs concerning the severe commitment to the business ethics set by the Sharia (Nathie, 2009). For example, unethical practices were at the origin of the collapse of the IBs of South Africa (Nathie, 2009), the Islamic International Bank of Denmark (Grais, 2004), and the Ihlas Finance House in Turkey.

Stakeholders' trust increases with the high ethical commitment of executives. Therefore, firms will achieve sustainable performance. In this context of sustainability, investors' interests are protected both in the short and long run. As a result, returns on investment will increase and greater value is added (Abidin et al., 2017).

Ethical commitment also builds a strong loyalty of stakeholders (customers and suppliers), which will contribute to improving the corporate performance. Executives are expected to set procedures and mechanisms to guarantee that bank transactions are conducted within an ethical context.

From an Islamic finance perspective, the sharia compliance requirements are aligned with Islamic work ethics' principles and values, which increases organizational commitment among executives. (Nasution & Rafiki, 2019).

Bank performance may be improved by many factors. One behavioral aspect, the ethical commitment, was discussed in the above section. The next part will explain how banking governance contributes also to the enhancement of performance.

Previous literature on banking governance sparked the debate on the differences between conventional and Islamic frameworks of governance. The banking model proposed by IBs is different from the conventional model as IBs are required to comply with the Sharia rules and principles that are derived from the fundamental principles of Tawhid, Shura, along with following property rights and commitment to contractual obligations that govern the economic and social behavior (Choudhury & Hoque, 2004, 2006; Iqbal & Mirakhor, 2004; Noordin & Kassim, 2019).

Although the replacement of interest was considered the prevailing difference between the two categories of banks, Islamic CG plays a prominent role in distinguishing IBs from their conventional counterparts. The principal mission of this mechanism is to oversee all operations and activities of IBs. This role encompasses guaranteeing the compatibility of all transactions with Islamic Sharia rules. As Islamic finance has been widespread in all regions, Islamic governance rapidly has become prominent in the Islamic financial industry (IFI) (Musibah & Alfattani, 2014).

Shariah governance in IFI has a dual responsibility. First, it provides guidelines to ensure the implementation of good ethics in their operations and consultation. Second, it has to provide purely Islamic products. In the case of the dysfunction of Sharia governance, IBs will lose their customers (Alnasser & Muhammed, 2012; Zain & Shafii, 2018). Among the most prominent activities that the Sharia board oversees are particularly zakat obligation, legitimacy, and reputation. Accounting policies of IBs have to be set in a meticulous way to guarantee an equal sharing of profit between shareholders and account holders. Sharia governance ensures that IBs are highly involved in corporate social responsibilities through zakat funds (Briston & El-Ashker 1986; Abdallah, 1994).

In CBs, the board of directors focuses on the maximization of shareholder wealth. However, the sharia supervisory board emphasizes meeting the expectations of all stakeholders. The complexity of agency relations in IBs can be explained by the multiplicity of players and conflicts. The agency context explains the nexus between corporate governance and bank performance.

Previous studies found a positive association between good CG practices and firm performance (Hossain et al., 2000; Williams, 2000; Drobetz et al., 2003; Gemmill & Thomas, 2004). In the Islamic finance framework, an effective Sharia Supervisory Board plays a major role in increasing performance.

Board size is one of the main attributes of the board of directors. From an agency theory perspective, small boards can help firms improve their performance. Larger boards of directors de-

crease the value creation of shareholders and do not guarantee future investment potential and efficiency. Then, a high number of directors on the board induce conflicts and create additional agency conflicts (Jensen, 1993; Al-Saidi & Al-Sammari, 2013). Belkhir (2009), and Rachdi and Ben Ameer (2011) confirmed the hypothesis postulated by Jensen (1993) and stated that a small board size can improve a firm's performance.

However, stakeholder theory recognizes the relevance of larger boards to serve the interests of stakeholders and to guarantee better representativeness within the board. Stakeholders' interests are addressed in the corporate decision-making (Evan & Freeman, 1990).

Empirical results have not documented a consensus concerning the effect of the board size on corporate performance. One stream of research approves that larger boards are effective. However, the second stream produces the results in favor of small boards.

Bukair and Abdulrahman (2015) stressed that, from an Islamic perspective, a reasonable number of boards of directors could improve performance. The diversity of experience and knowledge related to Sharia and banking industry issues could help IBs enhance their effectiveness.

Hakimi et al. (2018) studied the effect of board characteristics on bank performance. By using two different models, their research concluded divergent results. The random effect regression showed a significant and positive impact of the board size on bank performance for ROE and ROA models. The authors mentioned that random effect regression results converge with those of GMM regression only for the ROE model.

Independent directors provide counseling and guidance to executives and enhance the activity of the board. Bukair and Abdulrahman (2015) concluded that board composition hurts bank performance. Sheikh and Kareem (2015) did not find any evidence in favor of a significant relationship between board composition and financial performance in the context of Pakistani IBs. The authors found only support for the significant role of bank size.

Ghaffar (2014) identified a positive relationship between the percentage of independent directors and the performance of IBs. Moreover, Ibrahim et al. (2019) confirmed that the boards will be more efficient with the presence of independent directors.

The governance of IBs is characterized by an additional mechanism of control, the Shariah Board, which ensures compliance with the Shariah for all financial transactions *ex-ante* and *ex-post*.

Almutairi and Quttainah (2017) investigated empirically the underpinnings of how Sharia Supervisory Boards affect organizational financial performance via agency theory and contingency theory. They revealed a strong positive relationship between Sharia board attributes and bank performance. The major findings of these authors consist of outlining the necessity of widening the size of corporate boards and Sharia Supervisor Boards to improve monitoring and advisory functions, and organizational performance.

Grassa and Matoussi (2014) distinguished several differences between CG systems of financial and non-financial institutions. They found that board fees, CEO duality, and CEO age affect positively IBs performance. However, the Sharia board characteristics do not have any clear evidence of the performance of IBs.

Delorenzo (2007) clarified that the functions of the Sharia board include assisting IBs in the product development and structuring, certifying products through the fatwa, and ensuring Sharia compliance throughout the financial product's life cycle. The author considered that these functions help IBs improve their performance and their commitment to community services.

Hamza (2013) compared two different structures of sharia governance: the decentralized structure adopted by the Gulf Cooperation Council (GCC) and the centralized Malaysian form. The author investigated the link between the effectiveness of Sharia governance and the governance structure. The findings of the research highlight the importance of the decentralized structure in boosting the Sharia board effectiveness in GCC countries.

The centralized structure would be more advantageous for the industry and build trust and reassurance when dealing with IBs.

Musibah and Alfattani (2014) added new insight into examining the financial performance in the case of 36 IBs in the GCC region. They investigated the relationship between the effectiveness of the sharia governance system, corporate social responsibility, and intellectual capital. Financial performance has been considered the mediator of this relationship. The authors found that the effective sharia supervisory board positively affects the involvement of IBs in social activities.

Mollah and Zaman (2015) distinguished between the supervisory and advisory roles of the Sharia board. They found that the supervisory role is significant and has a positive effect on financial performance. However, the advisory role does not have any remarkable effect. Their research revealed that the board attributes such as size, composition, and CEO duality negatively affect performance. Indeed, sharia governance is more effective than the common CG in the Islamic framework. The Sharia board has to be strengthened to play its role effectively.

Zain and Shafii (2018) focused particularly on the specific characteristics of the sharia boards that affect financial and non-financial performance. They considered that the sharia committee, sharia risk, sharia audit, sharia review, and disclosure and transparency are governance variables. The researchers concluded that only the effect of the sharia review variable is not identified.

Ajili and Bouri (2018) confirmed the findings of Mollah and Zaman (2015). The authors built a CG index composed of the board of directors, audit committee, and sharia board indices. Their results showed that conventional CG does not have any impact on financial performance. The high performance in IBs in GCC countries is not associated with good CG. Then, Sharia governance is more prominent than conventional governance.

Despite the abundant literature on bank performance topic, there are still avenues to tackle deeper and new insights on the topic. The main objectives of this study are to deepen the understanding of the key determinants of performance in IBs based

on an agency framework and upper echelon theory. This paper will shed light on the importance of executives' commitment and banking governance to the challenging environment of IBs.

Based on the literature review, the following hypotheses were developed:

- H1: Executives' commitment is positively related to IBs' performance.
- H2: A high number of directors on the board is related positively to IBs' performance.
- H3: A high percentage of independent directors is related positively to IBs' performance.
- H4: A higher number of directors on the Shariah supervisory board is related positively to IBs' performance.

2. METHODOLOGY

2.1. Data

The sample of this study is composed of four IBs in Saudi Arabia. Data were collected during the period 2012–2020. Financial data are extracted from the Saudi stock exchange (Tadawul). The commitment was measured by using an index composed of 13 items.

Table 1 summarizes all data.

Table 1. Data summation

Dependent variable: Bank performance	
Return on assets (ROA)	Net income/total assets
Return on equity (ROE)	Net income/ equity
Independent variables	
Board size (BSI)	Ln (number of administrators)
Board composition (BIN)	Independent directors/total
	Directors
Shariah Board Size (SSB)	Ln (number of directors)
Executives' commitment (COM)	Ethical commitment index
Control variables	
Firm size (FSI)	Ln (total assets)

Two control variables were initially involved: firm size and managerial ownership. The manager

shareholder will be more committed and interested in improving bank performance. Firm size has been used in almost empirical corporate studies. Managerial ownership was deleted due to the high correlation with other independent variables.

CEO duality was also involved as a governance variable and then it was deleted from the sample as it took 0 for all banks. There is a separation between the CEO role and the chairman of the board of directors in the context of IBs in Saudi Arabia.

2.2. Ethical commitment measurement

The scoring method (binary or rating) was used by previous researchers to measure disclosure items. In the context of social disclosure, the binary method is suitable and effective (Haniffa & Hudaib, 2007; Wang & Berens, 2015; Abidin et al., 2017). Based on the items selected, the binary method will help assign a score of 1 or 0 for each item and calculate the total index for the considered type of disclosure.

In this study, management commitment to ethics measurement follows the same approach used in earlier studies. (Pae & Choi, 2011; Abidin et al., 2017) The approach represents an opportunity for researchers to adjust the items of disclosure according to the context of their studies. Pae and Choi (2011) presented in their seminal paper that the original index was composed of 11 items. Then, Abidin et al. (2017) added three new items derived from the Malaysian corporate practices. In this study, the original 11 items are used and 2 items were added. Item 12 is based on the social, and economic strategic program of the Saudi vision 2030. Saudi Arabia is determined to meet the sustainable development goals (SDGs) to enhance the economy of Saudi Arabia and exploit the current opportunities and face challenges. Item 13 was added referring to article 18 (part 3) of the CG regulations.

Based on the information provided by the board of directors and all documents published by the bank, each item will take 1 if it applies to the bank. However, if there is no disclosure, the item will take 0.

$$EI = \frac{\text{total score of all items}}{\text{total number of items}} = \sum \frac{I}{n}$$

where I represents the total score for each company, and n represents the total number of items which is 13.

The highest index reflects the highest commitment of the company towards the endorsement of ethical standards.

The results of Table 2 show that all banks of the sample emphasize the importance of business ethics. IBs stick to Maqāsid al-Sharia perspectives, which they enforce when addressing their business transactions. (item 1). Only one bank disclosed the importance of ethical behavior within its philosophy (mission and vision are examined): item 2.

All banks disclosed items 3, 4, 7, 12, and 13. However, no disclosure was found for items 8, 10 and 11. For items 6 and 9, two banks disclosed in their reports how they enhance business ethics practices through training, workshops, and open communication channels.

Table 2. Frequency analysis of EC items

Items	Items disclosed		Items non-disclosed	
	Frequency	Percentage	Frequency	Percentage
1	4	100	0	0
2	1	25	3	75
3	4	100	0	0
4	4	100	0	0
5	3	75	1	25
6	2	50	2	50
7	4	100	0	0
8	0	0	0	0
9	2	50	2	50
10	0	0	0	0
11	0	0	4	100
12	4	100	0	0
13	4	100	0	0

2.3. Empirical model

This study aims to investigate the impact of executives' commitment, CG on bank performance. Therefore, the relation may be modeled as follows:

$$\begin{aligned}
 & \text{Firm performance} = \\
 & = \text{Executives' management commitment} + \\
 & + \text{CG variables} + \text{Control variables}
 \end{aligned}$$

The above model will be split into two sub-models where the firm performance will be measured through two proxy variables. Therefore, the following models look like this:

$$\begin{aligned}
 ROE = & \text{Commitment} + \text{Board size} + \\
 & + \text{Board Independence} + \\
 & + \text{Shariah Supervisory} + \\
 & + \text{Board size} + \text{Firm size},
 \end{aligned} \tag{1}$$

$$\begin{aligned}
 ROE_{it} = & \beta_0 + \beta_1 COM_{it} + \beta_2 BSI_{it} + \\
 & + \beta_3 BIN_{it} + \beta_4 SBS_{it} + \beta_5 FSI_{it} + \epsilon_{it},
 \end{aligned} \tag{2}$$

$$\begin{aligned}
 ROA = & \text{Commitment} + \text{Board size} + \\
 & + \text{Board Independence} + \\
 & + \text{Shariah Supervisory} \cdot \text{Board size} + \\
 & + \text{Firm size},
 \end{aligned} \tag{3}$$

$$\begin{aligned}
 ROA_{it} = & \beta_0 + \beta_1 COM_{it} + \beta_2 BSI_{it} + \\
 & + \beta_3 BIN_{it} + \beta_4 SBS_{it} + \beta_5 FSI_{it} + \epsilon_{it},
 \end{aligned} \tag{4}$$

where *i* refers to the bank; *t* refers to the year; β_0 – the intercept; β – the estimated coefficient for each variable; and ϵ_{it} – the error term.

3. RESULTS AND DISCUSSION

Table 3 presents descriptive statistics of all variables. ROA varies from 0.012 to 0.040. On average, it is equal to 2.2%. ROE is slightly higher than ROA. It reaches 28.9% as the maximum. The average commitment index is equal to 67.3% and banks with high commitment reach 76.9%. The index level demonstrates that IBs have to improve their disclosure to gain more trust from their stakeholders. The average board size is equal to 10.5 with a maximum of 13 directors. The minimum of Islamic scholars in the sharia supervisory board is equal to 3 and attains 5 directors. The average firm size (expressed in LN) is equal to 17.13.

Table 3. Descriptive statistics

Variables	Mean	Standard deviation	Min	Max
ROA	0.022	0.012	0.012	0.040
ROE	0.171	0.171	0.080	0.289
COM	0.673	0.073	0.615	0.769
BSI	10.500	1.914	9.000	13.000
BIN	0.390	0.066	0.307	0.444
SBS	4.250	0.957	3.000	5.000
FSI	17.134	3.906	11.362	19.956

In the first stage of data analysis, preliminary tests were used to avoid misleading results and to make sure how independent variables can be used to understand the statistical variation of the dependent variable. Table 4 shows that the correlation between independent variables is normal except for BSI*SBS (correlation > 0.8). Table 5 presents the variance inflation factor (VIF), which measures the multicollinearity of independent variables. The mean VIF is equal to 3.49, and there is no high risk of wide confidence intervals. VIF is less than 10 for all variables.

Table 4. Pearson correlation matrix

Variables	ROA	ROE	COM	BSI	BIN	SBS	FSI
ROE	-0.449	1.000	-	-	-	-	-
COM	0.362**	0.045**	1.000	-	-	-	-
BSI	0.375**	0.254**	0.529	1.000	-	-	-
BIN	0.307**	0.551**	-0.431	-0.775	1.000	-	-
SBS	0.290	0.115	0.427	0.829	-0.529	1.000	-
FSI	0.015	0.112**	0.673	0.537	-0.511	0.446	1.000

Note: ** – significance level at 5%.

Table 5. Multicollinearity test

Independent Variables	VIF
BSI	6.83
SBS	3.60
BIN	2.93
FSI	2.08
COM	1.99
Mean VIF	3.49

To check the heteroscedasticity, Table 6 presents the results of the Breusch-Pagan test.

Table 6. Breusch-Pagan test

Model 1	Model 2
Chibar 2	Chibar 2
Prob > Chibar2 = 0.000	Prob > Chibar2 = 0.000

3.1. Test of individual effects

This test consists in testing the following hypothesis:

H0: Absence of individual effects.

H1: Presence of individual effects.

Table 7. Test of individual effects

Tests	Specific individual effect
F (5, 27)	0.4
Prob>F	0.8431

Prob > F is equal to 0.8431 and superior to the level of significance of 10%. The null hypothesis is rejected and the hypothesis of the presence of individual effects is accepted. The Hausman test is used to specify which effects (fixed or random) have to be considered to estimate the panel regression.

The null hypothesis of the Hausman test is that random effects are preferred. The alternative hypothesis presumes that fixed effects are preferred. Prob > chi 2 is superior to 0.1, the null hypothesis is accepted and the random-effects model is adequate to estimate model 1.

Table 8. Hausman test

Tests	Model (1)	Model (2)
Chi 2 (5)	2.02	2.28
(Prob > chi2)	0.8464	0.8876

Table 9 presents the results of GLS estimation for Models 1 and 2. The coefficient of board independence is negative and significant for Model 1. Hypothesis 3 (H3) is rejected. Then, the presence of outside directors does not improve the returns of IBs. Independent directors do not have any contribution to adding value to shareholders and improving banking governance. Although board independence is one of the prominent characteristics of CG, as independent directors bring new insights, skills, and experiences, their role is not supported in managing assets in the context of IBs in Saudi Arabia. AlQanea and Hamdan (2017) corroborated the findings of this study and claimed that only low independence has an impact on performance. However, boards having more than five independent directors do not contribute to enhancing bank performance.

The coefficient of the commitment variable is positive and significant. Hypothesis 1 (H1) is confirmed for model 1. Executives' commitment to business ethics increases corporate performance. Business ethics are embedded in sharia rules applied in IBs. Ethics are at the heart of the Islam religion. Banks with a high score of ethical commitment demonstrate the deployment of mechanisms to enforce stakeholders' visibility of good practices.

In the case of IBs, commitment is significant as a predictor of executives' performance because of their religious engagement and their eagerness to comply with Sharia requirements. Tracey (2012) shows that religion is no more a "Hat" that employees can take off before entering their workplace. Nevertheless, religious cognitions and practices have become an important predictor of employee performance in a corporate setting.

The board size positively influences the management of assets and increases the returns on assets of IBs. Then, hypothesis 2 (H2) is confirmed for model 1. Larger boards tend to influence IBs performance. The presence of heterogeneous directors contributes to the enrichment of communication and the improvement of managerial decisions. Islamic bank's assets are well managed and returns increase on larger boards. This result is consistent with the findings of Fallatah and Dickins (2012) and Matoussi and Grassa (2012), Hakimi et al. (2018).

The variable SBS is not significant. Then, Hypothesis 4 (H4) is not confirmed for model 1. Although the Sharia Board, as a governance mechanism, plays a prominent role in monitoring the compliance of banks' transactions to sharia, the size of this board does not prove a statistical significance. FSI is also not significant. Firm size does not affect the profitability of IBs in the Saudi context. This result is confirmed by Zain and Ghazali (2018).

According to model 2, the variable board independence has a positive and significant effect on ROE. Hypothesis 3 (H3) is confirmed for model 2. Then, a high number of independent directors increase the profitability of the bank and investment efficiency. Kim et al. (2014) and Zhu et al. (2016) confirmed this result.

The coefficient of commitment is not significant. Hypothesis 1 (H1) is not confirmed for model 2. In the Islamic context, religiosity affects designing the behavior and attitude of people. Mokhlis (2009) and Bouarif (2015) confirm that religion has a considerable effect on attitudes, values, and behavior. Although ethical commitment is essential for any corporation, conventional or non-conventional, its effect is not directly obvious for model 2.

Regarding governance attributes, the Sharia board does not prove the cognitive role as a persuasive mechanism that mainly monitors managers and impacts their choices. Hypothesis 4 (H4) is not also confirmed for model 2. Then, as required by shareholders and to meet customer expectations, managers must be monitored and directed to stay Sharia compliant and, therefore, to achieve competitive wealth (Ashraf et al., 2015; Ullah & Lee, 2012).

Board size has a positive and significant impact on financial performance (measured by ROE). Hypothesis 2 (H2) is also confirmed for model 2. This finding is confirmed by Al-Musalli and

Ku Ismail (2012). Large boards include directors with different expertise and educational level which make the discussion fruitful and the decision-making more effective.

The FSI has a positive and significant impact on how banks can generate returns on equity. Sharia Board size has a negative and non-significant impact on ROE. This finding is supported by Moallah and Zaman (2015) who found that Sharia supervisory board size has a positive effect only in large banks. Despite the trend to convert CBs to fully Islamic ones, only four Saudi banks got the license and they are still undergoing development. Many large groups are still not converted.

Table 9. Multiple regression (GLS)

Variables	Model 1	Model 2
	ROA	ROE
BIN	-0.083**	0.147**
COM	0.086**	0.186
FSI	-0.006	0.010**
BSI	0.154**	0.321**
SBS	0.001	-0.083
Const	-0.127	-0.972

Note: **, *** – significance level at 5 and 1 %, respectively.

CONCLUSION

The purpose of the study was to explain the special features of Islamic banking governance and introduce a new determinant of corporate performance related to behavioral aspects. The findings of this study reveal that only board independence and board size have an impact on bank performance in the Saudi context. However, the executives' commitment hypothesis was significant only for model 1 (ROA as a dependent variable). The findings of this paper suggest that IBs should have a higher index of ethical commitment through the deployment of mechanisms able to predict the non-compliance to sharia rules. The appointment of ethics officers helps IBs build a strong ethical culture. The existence of an external ethics evaluation system will strengthen the commitment and improve a bank's performance.

In the Islamic banking context, there is an Islamic governance system assured by the Sharia supervisory board. This mechanism differentiates IBs from conventional ones. This study did not demonstrate a statistical significance of sharia board size. The size of the sharia board should be widened to operate efficiently and play its monitoring rule.

From an Islamic governance perspective, executives known for a good reputation and ethical integrity and who possess a solid background in Islamic finance and economy are able to encounter challenging issues in the Islamic banking industry. Ethical awareness and Islamic knowledge will influence the bank's performance.

Further research should focus on identifying the attributes of the Sharia board, which highlights its role of certifying the compliance of financial instruments and products to Islam rules. Executives have to enhance the ethical culture of employees and provide appropriate channels to report any violations of

the rules. IBs have to disclose all information related to their ethical practices, philanthropic activities, and systems to detect the non-observance of business ethics. As IBs are expected to be strict about setting an ethical commitment built on sharia, high disclosure of ethical commitment helps executives to sustain a healthy and sustainable environment to improve a bank's performance.

AUTHOR CONTRIBUTIONS

Conceptualization: Khaoula Aliani, Fadhila Hamza.

Data curation: Khaoula Aliani, Aysha AlSalih.

Formal analysis: Khaoula Aliani.

Investigation: Aysha AlSalih.

Methodology: Khaoula Aliani.

Validation: Khaoula Aliani.

Software: Khaoula Aliani.

Visualization: Fadhila Hamza.

Writing original draft: Khaoula Aliani, Aysha AlSalih, Fadhila Hamza.

Writing – review & editing: Khaoula Aliani, Aysha AlSalih, Fadhila Hamza.

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