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IS CORPORATE GOVERNANCE DIFFERENT FOR ISLAMIC BANKS? A COMPARATIVE ANALYSIS BETWEEN THE GULF COOPERATION COUNCIL CONTEXT AND THE SOUTHEAST ASIA CONTEXT

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Abstract

Islamic banks are particular financial institutions generating distinct corporate governance challenges. The present study examines corporate governance in Islamic banking firms in both Gulf cooperation Council countries and Southeast Asia countries. In particular, we study corporate governance variables identified as relevant by academics and practitioners and describe their differences and similarities vis à vis conventional banking firms. As well as we investigate the differences and resemblances of corporate governance characteristics of Islamic banking in GCC countries vis à vis Islamic banking in southeast Asia countries. Moreover, this paper studies the impact of relevant corporate governance variables identified by our study on the financial performance of Islamic banks. Investigation relies on a sample of 90 larges Islamic Banks over the period 2000-2009. Our findings reveal that there are several divergences between corporate governance characteristics of Islamic banks and those in conventional banks. As well, there are many differences between corporate governance characteristics of Islamic banks in GCC countries and those in Southeast Asia countries. Moreover, we find that board fees, CEO duality and age have a positive and significant effect on the performance of Islamic banks. However, the Sharia Supervisory Board characteristics don't affect the financial performance of Islamic banks.

JEL Classifications: G21, G3

Keywords: Corporate governance, Islamic bank, board of director, CEO, SSB, GCC, Southeast Asia

ملخص

المصارف الإسلامية هي مؤسسات مالية متميزة خاصة تواجه بتحديات حوكمة الشركات. هذه الدراسة تبحث حوكمة الشركات في الشركات المصرفية الإسلامية في كل من دول مجلس التعاون الخليجي ودول جنوب شرق آسيا. وعلى وجه الخصوص، نقوم بدراسة المتغيرات الخاصة بحوكمة الشركات الهامة للأكاديميين والممارسين ووصف اختلافاتهم والتشابه فيها تجاه الشركات المصرفية التقليدية. وكذلك تقوم هذه الورقة بالتحقيق في اختلافات وتشابه خصائص حوكمة الشركات المصرفية الإسلامية في دول مجلس التعاون الخليجي وذلك حيال المؤسسات المصرفية الإسلامية في بلدان جنوب شرق آسيا. وعلاوة على ذلك، فإن هذه الورقة تقوم بدراسة تأثير المتغيرات ذات الصلة بحوكمة الشركات التي حددتها دراستنا عن الأداء المالي للمصارف الإسلامية. يعتمد التحقيق على اكبر عينة من 90 مصرف إسلامي خلال الفترة 2000-2009. النتائج التي توصلنا إليها تظهر أن هناك اختلافات عديدة بين خصائص حوكمة الشركات للمصارف الإسلامية وتلك في المصارف التقليدية. أيضا، هناك العديد من الاختلافات بين خصائص حوكمة الشركات للمصارف الإسلامية في دول مجلس التعاون الخليجي والذين يعيشون في بلدان جنوب شرق آسيا. وعلاوة على ذلك، نجد أن رسوم متنها، الرئيس التنفيذي لشركة الازدواجية والسن يكون له أثر إيجابي وكبير على أداء البنوك الإسلامية. ومع ذلك، فإن خصائص هيئة الرقابة الشرعية لا تؤثر على الأداء المالي للمصارف الإسلامية.

1. Introduction

The poor governance of banks can carry enormous consequences, one of which is banking crises. Banking crises have crippled economies, destabilized governments, and intensified poverty (Levine 2004). Given the importance of banks on economic stability, the governance of banks themselves assumes a crucial role. The recent global financial crisis has emphasized this idea and shown that the problem of bank governance is very severe. However, Islamic banks demonstrated a strong resilience among the current financial crises. Thus, it seems to be an interesting question to examine whether the corporate governance of Islamic banks are different from their conventional counterparts; and how these differences could affect the performance of Islamic banks.

Most of Islamic banks (IB) are located in the GCC countries and Southeast Asian countries and they have many special features compared to their conventional counterparts. First, Islamic finance is based on the profit-losses-sharing arrangements; hence IBs want to improve their financial performance. Second, religion plays a crucial role in Islamic banking, since the activities of Islamic banks must be in accordance with the Sharia principles.

This study seeks to examine corporate governance in Islamic banking firms in both Gulf cooperation Council countries and Southeast Asian countries. In particular, this study examines corporate governance variables of IBs identified as relevant by academics and practitioners (Board of directors and CEO characteristics) and describes their differences and similarities vis à vis conventional banking firms, and investigates the differences and resemblances between the corporate governance characteristics (Board of Director, CEO and Shari'a supervisory board (SSB) characteristics) of Islamic banks in GCC countries and those in Southeast Asian countries. Thus, this study provides a comprehensive investigation about of the particularities of the corporate governance of IBs and their impact of the performance of banks.

Our investigation covered a sample of 90 of the largest Islamic Banks and 85 non-Islamic banks from GCC countries and Southeast Asian countries observed over the period 2000-2009. Our main findings are threefold. First, Islamic banks are more profitable than non-Islamic banks, and Islamic banks in GCC countries are more profitable than IBs in Southeast Asia countries. Although, non-Islamic banking assets are more important than Islamic banking assets, the assets growth rate of Islamic banks is significantly higher than of non-Islamic banks.

Second, we find that there are several divergences between corporate governance characteristics of Islamic banks and those of conventional banks. As well as there are many differences between corporate governance characteristics of Islamic banks in the GCC countries and in those in the Southeast Asian countries. These divergences have economic, social and cultural explanations.

Third, we find that board fees and CEO duality seems to have a positive and significant impact on the performance of the Islamic banks. Nonetheless, only the presence of members having accounting or financial knowledge on the SSB has a positive affect on the performance of Islamic banks. Thus, such competence in the SSB helps the management of IBs to improve their products and services and therefore enhance the financial performance of the bank.

Our study has several contributions to the existing literature. First to our knowledge, this paper is the first one that attempts to compares corporate governance characteristics between Islamic banks and conventional banks and the impact of these variables --identified as relevant by our study-- on the performance of IBs. Our findings suggest that the culture, economic and social contexts in which these banks operate affect the composition of the board of directors and the SSB. For example women directors are more present on the board of directors and in the SSB of IBs in Southeast Asian countries than in the GCC countries. And foreigner directors are more present on the boards of IBs in GCC countries than in Southeast Asia countries. Second, our paper focuses on the unique corporate governance structure of Islamic banks, and examines how different SSBs structure impacts its performance. Third, this study provides empirical support for the neo-institutional perspective at the national level for differences in perceived legitimacy of corporate governance practices throughout the world. As such, it suggests new avenues of research for both the comparative corporate governance literature, as well as for the neo-institutional perspective.

The remaining of this paper is organized as follows: Section two discusses the related literature. Section three presents the context of our study. Section four presents our data and some descriptive statistics. Section five provides empirical results. Section six summarizes our paper.

2. Literature Framework

2.1 Special feature of Corporate Governance of bank

The governance of banking firms may be different from that of unregulated nonfinancial firms (Adams and Mehran 2005). When addressing corporate governance of banks, we should, firstly, take into consideration particular features of corporate governance of the financial sector (Adams and Mehran 2003). Since banks are not like other firms, why they should be treated differently? Banks are characterized by the liquidity production function, the deposit assurance fund, the assets structure and problems of loyalty, and the greater opaqueness that cause a heavily regulation (Macey and O'hara 2003). Furthermore, Islamic banks include other special corporate governance features that make corporate governance of IBs different from conventional banks. Islamic finance is based on Sharia law and the Islamic bank must undertake activity only on the basis of Islamic principles. Hence, the risk of non-compliance to Shari'a principles can create financial turmoil. Moreover, Islamic banks are characterized by the existence of the unrestricted Investment Account holders, which leads to comingling their funds with the shareholders' stakes. As a result, the return will be comingling. This can be a source of a principal agent problem and an interest conflict issue and give rise to the unresolved corporate governance issue regarding protection of the rights of investment account holders versus shareholders[1]. *As well*, less transparency, weaker market forces and sometimes-weaker government oversight characterize the institutional environment in which Islamic banks operate (Claessens 2006). All these factors make the corporate governance of IB different from their conventional counterpart.

2.2 Corporate governance of Islamic financial institutions: Sharia governance

The purpose of corporate governance in Islamic financial institutions is different from the purpose of corporate governance of other firms. Habib and Chapra (2002) consider the corporate governance of Islamic financial institutions as a mechanism that allows ensuring fairness to all stakeholders through greater transparency and accountability towards Islamic principle. According to Ibrahim (2006), the corporate governance of a *Sharia* compliant business would first look at the transactional structure to see whether the transaction involves elements that invalidate gains or profits, since *Sharia* is concerned not only with the substance but also with the form of the business. In effect, corporate governance for Islamic financial institutions stems from two principle elements: a faith based approach that mandates conduct of the business in harmony with Islamic law; and a profit-motive that

[1] IDB: " Islamic Financial services Industry Development: ten year Framework and Strategies"

recognizes business and investment transactions and maximization of shareholder's wealth etc. (Akhtar 2006). Hence, a central feature of corporate governance of an Islamic financial institution is ensuring *Sharia* compliance. Thus, Islamic banks have a complicated system of corporate governance. Indeed, Islamic financial institutions are submitted to two internal structures of corporate governance: the Board of Directors and the Supervisory Shari'a Board (Lewis 2008). The first structure protects the shareholder's interest and focuses exclusively on the maximization of shareholder value. The second structure protects the Islamic community and customer and is concerned with conforming to shari'a and Islamic law (Siagh 2002).

Special characteristic of Sharia Governance: the Sharia Supervisory board (SSB)

Sharia governance is a feature of governance for Islamic financial institutions (IFI), whose concern is the religious aspects of the overall activities of IFIs as compared to the conventional concept of corporate governance. *Sharia* governance seeks to ensure the Islamicity of financial transactions. *Sharia* governance refers to the scheme the SSB directs and controls to insure *Sharia* compliance. The SSB consists of *Sharia* advisers who are hired by the IFI. The SSB is an independent body entrusted with the duty of directing, reviewing, and supervising the activities of the IFIs. The purpose of the SSB is to insure the IFIs operate in accordance with the Sharia principles and rules. In effect, the *SSB* works with management to ensure that the **financial** product or service is in compliance with the principles and precepts of the **Sharia. They also have** to ensure that there is enough transparency in the **Sharia** process and that the product or service is understood by customers and the investors to be **Sharia-**compliant.

This board, as part of the internal governance structure of the institution, operates as an internal control body in the organization, therefore, enhancing the credibility of the institutions in the eyes of its customers, shareholders… and bolstering their Islamic credentials (Rammal 2006). The SSB is crucial for two reasons. Firstly, those who deal with an Islamic bank want to be assured that it is transacting with Islamic law. In fact, if the board reports that the management of the bank has violated the *Sharia*, the Islamic bank would quickly loose the confidence of the majority of its investors and clients. Secondly, some Islamic scholars argue that strict adherence to Islamic religious principles will act as a counter to the incentive problems outlined above. In effect, the Islamic moral code will push Muslims to behave ethically, so minimizing the transaction costs arising from incentive issues. In effect, Islamic religious ideology acts as an incentive mechanism that reduces the inefficiency that arises from asymmetric information and moral hazard (Suleimen 2006).

The importance of corporate governance for Islamic banking sector

According to Adams and Mehran (2005), the governance of Islamic banks should be different from that of conventional banks. The reason is the number of parties involved, which complicates the governance of IFI. In addition to investors and regulators other stakeholders have a direct interest in Islamic bank financial stability. Hence, regulators of IFIs are concerned with the performance of Islamic banks because the health of the overall Islamic economy depends upon their financial stability. As a result, the internal structure of corporate governance as the board of directors and the SSB are placed in a crucial role in its governance structure. Hence, regulators have placed additional expectations on Islamic banks. These and other differences in the operation of IFI have led many to view governance as less critical to the conduct and operation of Islamic banking firms.

3. Islamic Finance in GCC and Southeast Asia countries

3.1 Islamic banks in GCC countries

The Gulf Cooperation council (GCC) consists of six countries located in the Middle East: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Oman and Bahrain. The GCC was founded in 1981 with the objective of coordinating policies of various political, economic, and social matters, and have similar regulations. The GCC countries are independent governments with independent currencies. Oil, which is the main commodity of these countries, was discovered in the 1940's in GCC countries and constitutes today the world's largest reserve. Banking industry development in GCC countries is linked to oil export.

Since the oil boom of the 1970s, foreign banks have been operating in GCC countries. Early banking in the GCC region experienced a great deal of foreign ownership mostly by the British Bank in the Middle East. This bank had branches across all six GCC countries. Other foreign banks were also popular as there were large revenues from oil trade. Local banks were not common because of lack of sufficient experience. Since 1975, the Islamic banking industry has developed in the GCC. The first Islamic banks implanted in GCC countries were the Kuwait Finance House, Dubai Islamic Bank and Al-Rajhi bank in Saudi Arabia. The GCC region currently remains the primary financier of Islamic finance worldwide. By the end of 2008, there were more than 45 Islamic banks in the GCC, offering a full range of Islamic banking products and services. Today, the GCC countries are widely believed to have the most developed Islamic financial system in the world that operates side-by-side with a conventional-banking system. Apart from the Interest-free Banking Scheme, the GCC countries have a well-developed Islamic interbank money market, Islamic securities market, and Islamic insurance market. Seeing the significant growth of Islamic finance, several GCC countries have installed a comprehensive prudential and reporting framework, tailor-made for the specific concepts and needs of Islamic banking and insurance. In addition to the numerous Islamic financial institutions active in its financial sector, the GCC countries also play host to a number of organizations central to the development of Islamic finance, including:

- The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- The Liquidity Management Centre (LMC);
- The International Islamic Financial Market (IIFM),
- And The Islamic International Rating Agency (IIRA).

Today, Gulf Islamic banks control a market-share with about 15% of the regional banking system's assets, and have become part of mainstream financial intermediation in this part of the world. At the same time, Islamic banks in the GCC have also become more diverse: large pioneers established in the 1970s co-exist with new entrants, former conventional financial institutions recently converted into fully fledged Sharia-compliant banking entities, and the still-conventional banking providers. The total assets of Islamic banks in GCC exceed 125 billion dollars (more than 25% Sharia-compliant banking assets globally)[2].

According to the International Monetary Fund (October 2009), during the period 2002-2008, in average, Gulf Islamic banks' assets represent 23.8% of the total banking assets, and the growth rate of Islamic banks' assets is over 44% (the growth rate of assets of the global banking system in GCC is over 22.6%). Table 1 summarizes some data for each GCC country.

[2] Moody investor service, 2009

3.2 Islamic banks in Southeast Asia

Malaysia: Malaysia is fast becoming recognized as the model for the successful development and establishment of an Islamic financial system alongside conventional banking in the Asia-Pacific. The total Malaysian shari'a-assets exceed 86 billion USD (ranked third of countries by shari'a- compliant assets). At present, Malaysia boasted some of the largest Islamic financial instruments globally, besides being the largest sukuk issuer in the world. Malaysia retains the world's largest Islamic bond market (two-thirds of total Islamic bonds outstanding worldwide). Various milestones have marked the development of Islamic finance in Malaysia such as the establishment of the first Islamic financial institution in the world in the form of *Tabung Haji* (The Pilgrimage Fund) in 1969, the first Islamic bank in the country in 1983, and the initiatives to become an international Islamic finance hub through the Labuan International Offshore Financial Centre (IOFC) and later Malaysian International Islamic Financial Centre (MIFC). Of the top 25 Islamic banks ranked in the word, Malaysia dominates with three institutions and over 7% of the total assets. Having the Islamic Financial Services Board (IFSB)—an international standard setting body for prudential regulations in Islamic finance—to select Kuala Lumpur as its headquarters, further stamps Malaysia's position as a leading jurisdiction for Islamic finance not only regionally, but also globally.

Indonesia: Being the country with the largest Muslim population in the ASEAN region (approximately 220 million) would essentially propel the Islamic finance market in Indonesia to significant heights. Indonesia is ranked 17th biggest Islamic economy with total Sharia-assets exceeding 3.388 million US dollars in 2009. Twenty-three other Islamic banks and 456 conventional bank branch offices that provided Islamic banking services had joined bank Muamalat, by the end of 2006. According to Bank Indonesia, which is the central bank, the share of Islamic banking assets of total national banking assets was 9% in 2010. The annual growth rate of sharia-compliant assets is over 28%.

4. Data and Descriptive Statistics

Recall that our objective to make a comparative analysis between GCC and Asian Islamic Banks. Specifically, we focus on two aspects: corporate governance and performance. To this end we present our data and some descriptive statistics.

4.1 Sample construction and characteristics

Our Islamic banking samples consist of 62 Islamic banks located in GCC countries (Saudi Arabia, UAE, Kuwait, Bahrain and Qatar) and 28 Islamic banks located in Southeast Asia (Malaysia. Indonesia and Brunei) observed for the period 2000-2009 (panel data). We collect data on internal governance characteristics from their annual reports. The governance data are measured on the date of the proxy at the beginning of the corresponding fiscal year. We collected balance-sheet data from annual financial statements for Islamic banks.

Islamic banks and conventional banks were matched according to size and geographic location. The matched sample covers 90 Islamic banks and 85 conventional banks. Our conventional banking sample consist of 50 publicly traded conventional banks in GCC countries and 35 publicly traded conventional banks in Southeast Asia countries that were the largest top-tier Banking holding companies in terms of book value of assets for each year between 2000-2009 (see Table 2). The sample covers 10 years from 2000 to 2009. The final sample consists of 175 banks, consisting of 1446 bank-year observations.

4.2 Variables Measurement

We retain in our study three types of variables: Performance variables, corporate governance variables and bank characteristics.

Bank performance: for financial bank performance we use two ratios:

ROA = Return on Assets

ROE = Return on Equity

Corporate Governance variables: We use both classical variables and SSB variables.

- Board Meeting: the Number of meetings held by a board of directors during the year.
- Board Size: the number of directors on the board of directors.
- Non-Executive: the percentage of non-executive directors on the board.
- Outside Director: the percentage of outside directors on the board of directors.
- Woman Director: is the percentage of women directors on the board of directors.
- Old Director: the percentage of directors over the age of 65 on the board.
- Foreign Director: the percentage of foreign directors on the board.
- Director Fees: the annual payment made to directors.
- CEO Tenure: the number of years the CEO has been in that position.
- CEO Duality: a dummy variable set equal to 1 if the CEO is also Chairman of the Board.
- CEO Founder: a dummy variable set equal to 1 if the CEO is also the founder.
- CEO Age: the age of the CEO.
- Number of Committee: the number of board of directors' committee.
- SSB size: the size of the SSB.
- SSB interlock: the ratio of the SSB members with interlocks to the overall number of the members serving on SSB.
- SSB AFC: the percentage of SSB members with accounting/ finance knowledge.
- SSB Women: the percentage of Women present in the Shari'a Supervisory Board.

Bank Control variables: Following prior studies, we include two bank characteristics in the empirical analysis.

Bank size: is measured by the log of total assets at the end of the year.

Bank age: is measured by the number of years since the bank was established.

4.3 Descriptive statistics

Before studying the corporate governance characteristics of Islamic banks, we start by comparing the performance of Islamic and non-Islamic banks in the GCC and the Southeast Asian countries.

Graphs 1 to 14 describe and compare the performance and the perspective of the assets growth of Islamic banks and non-Islamic banks both in the GCC countries and the Southeast Asian countries. Using the ROA and ROE ratio we find that Islamic banks are better performing than non-Islamic banks. Moreover Islamic banks in the GCC countries are more profitable than those in the Southeast Asian countries (Graph 13 and 14).

Graphs report also that, even non-Islamic assets are significantly more important than Islamic assets; the growth rate of the banking assets is significantly higher in Islamic banks than non-Islamic banks.

Table 3 presents the distribution of means of selected financial variables for our sample of Islamic banks in both the GCC and the Southeast Asian countries. As we can see, the most important point is the increasing size of Islamic banks measured by the book value of assets, which reflects the heightened consolidation in the industry. An average firm in our sample had 1.58 billion dollars (median 0.433 billion) of assets at the end of 2000, rising to 11.39

billion dollars (median: 3.52 billion dollars) in 2009. Moreover, an average firm in our sample had a Return on assets of 1.5% at the end of 2000, jumping to 36.8% in 2006 and declining to 2.4 in 2008 the year of the financial crisis.

5. Comparative analysis of corporate Governance in GCC and South Asia banks

Table 4 provides summary statistics for selected variables that describe the governance structures of our sample of Islamic banks. Table 5 shows the results of mean and median comparisons of governance variables between Islamic and conventional bank samples.

5.1 Board size and composition

As Table 4 shows, the average number of directors in Islamic banks is 8 (with a minimum of 4 and a maximum of 14). This number is stable over the ten-year period. Table 5 indicates, on average conventional banks have one more director than Islamic banks over the sample period Table 6 provides evidence that the board of directors of GCC‘s Islamic banks is significantly larger than those in Southeast Asian countries. However, the number of the directors present on the board of directors of the Islamic banks is still smaller than those founded in conventional banks in USA. Adams and Mehran (2003) find an average of 18 directors make up each bank board.

According to Table 4, the mean percentage of outside directors in the sample is 57 percent (median: 50 %). Table 5 shows that the percentage of outside directors in IBs is nearly the same as conventional banks. Moreover, Table 6 reports, on average, the percentage of outside directors in Islamic banks of GCC countries is higher (63 %) than those observed in Southeast Asia (52 %). Adams and Mehran (2003) find that the percentage of outside directors in bank holding companies in the USA is 68.7 percent.

According to Table 4, the mean percentage of women directors in our Islamic banks’ sample is 0.9 percent. Table 5 shows that the percentage of women directors in conventional banks is significantly larger than in Islamic banks (2.1 %). Nevertheless, as Table 4 shows, the presence of the women in the board of directors of Islamic banks in Southeast Asia is higher than those observed in GCC countries (2.7 %). This observed behaviour could be explained by tradition and culture that dominate the GCC region where women cannot hold a making decision post. However, women in Southeast Asia have, since the 1980s, have participated more and more in professional life and can hold leading positions.

The mean percentage of old directors is 5.3 percent (median is 0 percent) as Table 4 shows. Table 5 reports that the percentage of old directors in conventional bank is significantly higher than in Islamic banks, where the mean percentage is 15.8 percent. This can be explained by the fact that the Islamic financial industry is an emerging industry. Furthermore, according to Table 6, an average percentage of old directors present on the board directors of Islamic banks in Southeast Asia (8.8 % in average) is higher than those observed in GCC countries (3.6 % in average).

According to Table 4, the mean percentage of foreign directors in the sample is 32 percent while the median is 13 percent. This number has increased from 10 percent in 2000 to 35 percent in 2009. Table 5 shows that the percentage of foreign directors in Islamic banks is significantly higher than in the conventional bank, where the mean percentage is 19.2 percent. Table 6 reports that the presence of the foreign directors on the board of directors of Islamic banks in GCC countries (33.71% in average) is significantly higher than those observed in conventional bank (26.1% in average).

The mean of the directors’ fee is 640.413 dollars (Table 4), while the median is 330 000 dollars. Over the ten-year period, the average directors’ fee has significantly increased from 242.641 dollars (median: 244.300 dollars) to 904.258 dollars (median: 411.840 dollars).

Table 5 shows that directors' fees in conventional banks are still higher than those in Islamic banks, where the mean percentage is over 1.647.471 dollars. According to Table 6, the average Islamic banks directors' fee in GCC countries (723 885 dollars) is significantly higher than the average Islamic banks directors fee in Southeast Asia countries (433 007 dollars).

5.2 Board activity

Table 4 provides information on board activity and committee structure. On average an Islamic bank in the sample meets 9.5 times per year while the median is 7 times per year. However, it seems that there has been a downward trend in this number. As shown in Table 5, an Islamic bank board meets slightly more frequently than the board of conventional banks. Table 6 reports that on average, the board of an Islamic bank in GCC countries meets 6.8 times per year, which is lower than in an Southeast Asian Islamic bank (10.38 times on average). Generally, the number of annual board meetings for a bank is regulated at the state level. Malaysian state requires a minimum of seven meeting per year. However, in GCC countries banks must have a minimum between four and six meeting per year. State regulations on the number of meeting may influence the choice of bank directors.

The board committee of Islamic banks (with a mean of 3.2 and a median of 3) is lower and significantly different from those of conventional banks (Table 5). Moreover, the board committee of an Islamic bank is lower in GCC countries (2.9) than in Southeast Asia (3.4).

5.3 CEO characteristics

Table 4 provides summary descriptive statistics on the characteristics of the CEO. As we can see from Panel B of that table, we find that the tenure of the CEO is in average 3.77 years (with a minimum of 1 year and a maximum of 16 years). As shown in Table 5 Panel A, the average tenure of the CEO in a conventional bank (7.24 years in average) is higher than in Islamic banks (3.77 years in average).

We see also from Table 5 Panel A that in average 9.5 percent of the CEOs of Islamic banks are also the chairman of the board of directors. This percentage is significantly smaller in conventional banks (3.9 %). However, and according to Table 5 Panel D, we cannot observe the duality of the position of the CEO with the chairman of the board in Islamic banks in Southeast Asia.

Table 4 shows that on average 48.7 percent of the CEOs of the Islamic banks are also the founders of the bank. This percentage is smaller in conventional banks (10.7%). Table 6 shows that the percentages of CEOs that are also the founders of Islamic banks are significantly higher in GCC countries, an average of 56 percent, than in Southeast Asian countries, where the average is 29 percent.

The average age of the CEO of Islamic banks is 50 years old, while it is 55 years in a conventional bank (Table 5 Panel A). The average salary of the CEO in Islamic banks is 318 380 dollars. However, the average remuneration of the CEO of Islamic banks still lower than the average remuneration of the CEO in conventional banks, with an average of 648 751 dollars (Table 5 Panel A).

5.4 Sharia Supervisory Board

Table 7 provides summary descriptive statistics on the characteristics of the Sharia Supervisory Board.

As we can see the SSB of Islamic banks in Southeast Asian countries (4.9) is slightly higher than the SSB of Islamic banks in GCC countries (4.15). Moreover, the percentage of the interlock in the SSB of Islamic banks in GCC countries (93.7%) is higher than in Islamic banks in Southeast Asian countries (69.4%). As well as, the presence of women in the SSB of Islamic banks in Southeast Asia countries (3.4%) is significantly higher than what is observed in GCC countries (0.1%)

5.5 Results of the regression analysis

Table 8 reports the regression analysis results on the determinants of financial performance of Islamic banks. Panel A for our 3 models. Panel A reports the results for all IBs, while panels B and C report the results for the GCC and South Asia respectively.

The director fee has a positive and significant impact on the performance of all Islamic banks, both in GCC and Southeast Asia countries. Moreover, the CEO duality impacts positively and significantly the financial performance of the Islamic banks. CEO age has a positive and a significant impact on the financial performance of the IBs in GCC countries. Older CEOs have more experience and better management skills than their younger collegues. Moreover, we find that the presence of a supervisor having accounting/finance competence on the SSB affect positively and significantly the financial performance of the bank. Hence, including someone skilled in finance and/or accounting in the SSB is so important and helps an Islamic bank to increase its performance. This person assists the board of directors so that they have a robust understanding of what’s happening in the day-to-day operations of the bank. Since the SSB is lacking in the accounting knowledge, it may be ignorant of the true implications of the complex financial products and transactions brought before them. Thus, knowledge in Islamic law principle, together with knowledge in business, accounting or finance will help the board to increase the performance of Islamic banks.

6. Conclusion

In this paper we examine the corporate governance of Islamic banks in Gulf Cooperation Council countries and Southeast Asian countries. In particular, this study examines corporate governance variables of IBs identified as relevant by academics and practitioners (Board of directors and CEO characteristics) and describes their differences and similarities vis à vis conventional banking firms, investigates the differences and resemblances between corporate governance characteristics (Board of Director, CEO and SSB characteristics) of Islamic banks in GCC countries and those in Southeast Asian countries, and the effect of corporate governance variables on the performance of Islamic banks.

Our findings are summarized as follows: first, Islamic banks are more profitable than non-Islamic banks, and Islamic banks in GCC countries are more profitable than IBs in Southeast Asian countries. Although, non Islamic banking assets are more important than Islamic banking assets, the growth rate of Islamic banks’ assets is significantly higher than in non Islamic banks. Second, we find that there are several differences between corporate governance characteristics of Islamic banks and those of conventional banks. As well as there are many differences between corporate governance characteristics of Islamic banks in GCC countries and in those in Southeast Asian countries. These divergences have economic, social and cultural explanations. Third, we find that the board fee and CEO duality have a positive and significant impact on the performance of Islamic banks. However, only the presence of member with accounting or financial skills in the SSB affects positively the performance of the Islamic banks.

To the best of our knowledge, our paper is the first to compare corporate governance characteristics between Islamic banks and conventional banks. As well, this paper is the first to compare corporate governance characteristics between Islamic banks in Southeast Asia and those in GCC countries and the impact of these variables on the performance of IBs. Our findings suggest that culture, economic and social context on which these banks operate affect the composition of the board of directors and the SSB. Second, the results on the impact of the SSB characteristics on banks performance are not stable. More evidence is needed in order to confirm or reject the efficiency of the Sharia Supervisory Board as a value creator.

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Figure 1: Return on Assets for all Sample

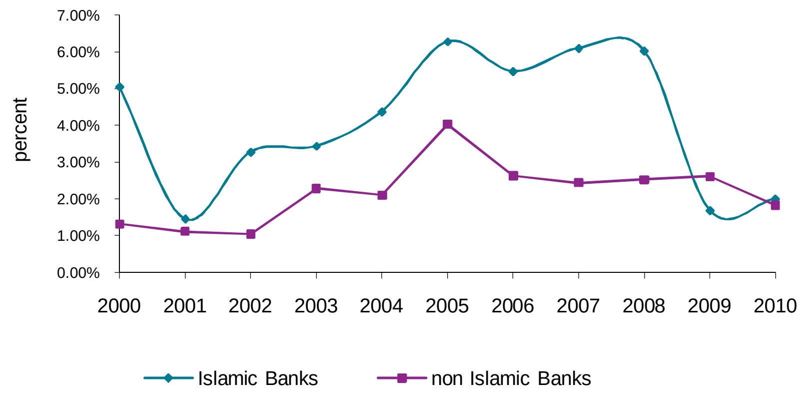

Figure 2: Return on Equity for all Sample

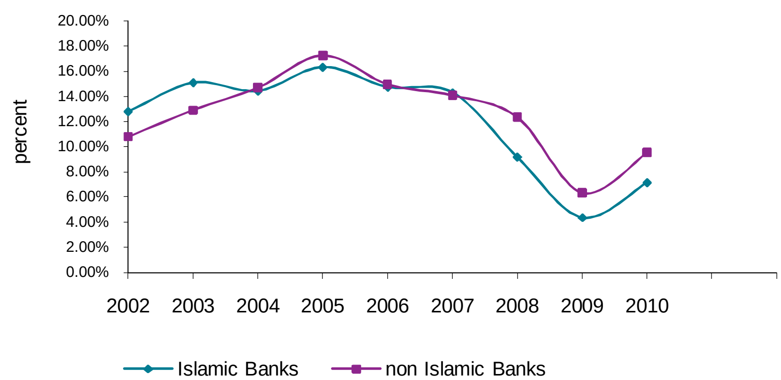

Figure 3: Assets Growth for all Sample (LN)

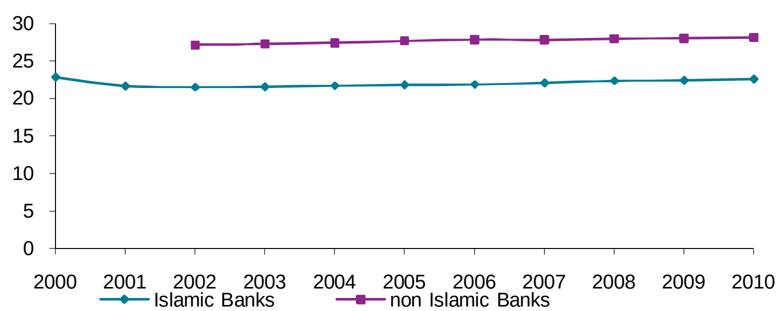

Figure 4: Assets Growth Rate for all Sample

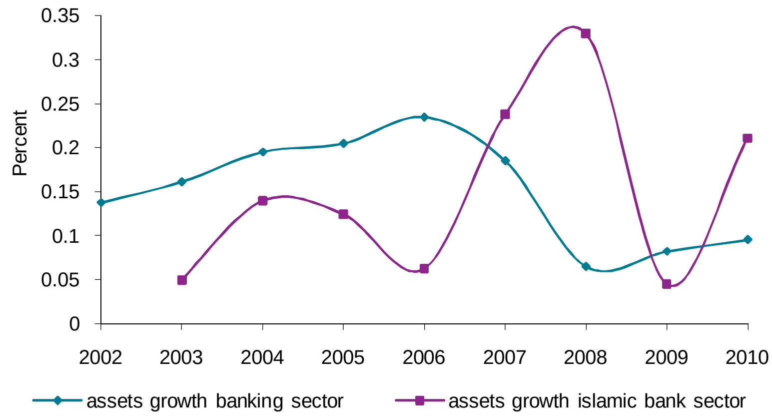

Figure 5: Return on Assets for GCC Countries Sample

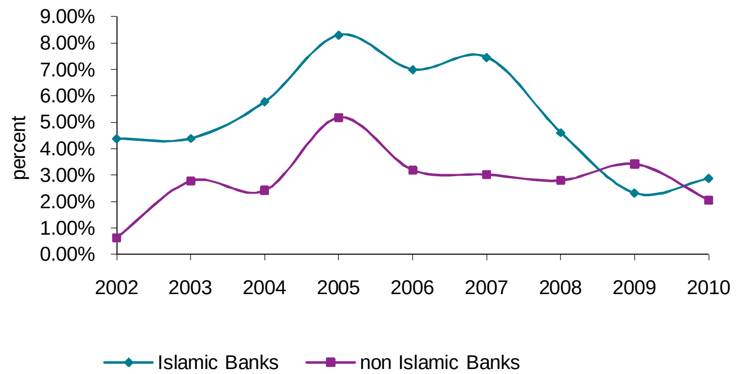

Figure 6: Return on Equity for GCC Countries Sample

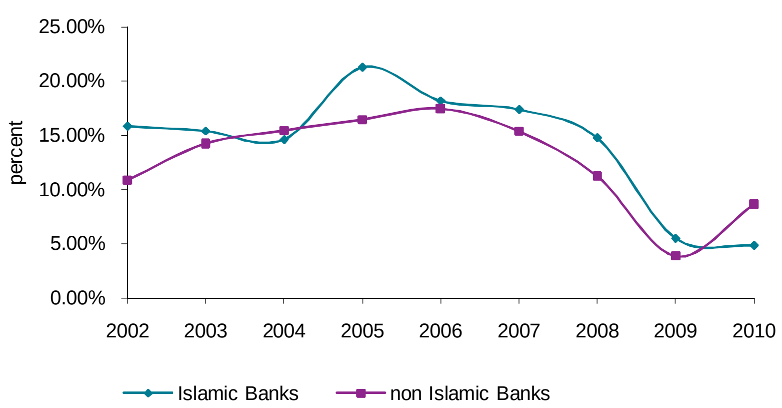

Figure 7: Assets Growth for GCC Countries Sample

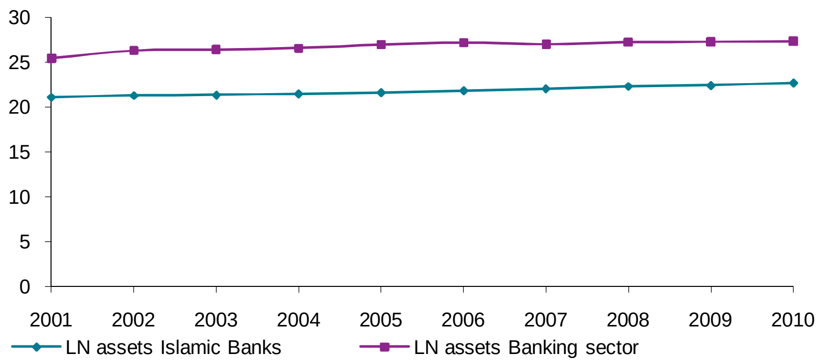

Figure 8: The Growth Rate of Assets for GCC Countries Sample

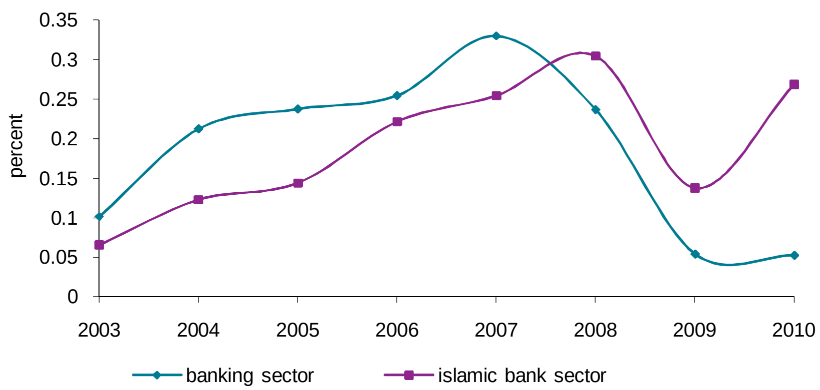

Figure 9: Return on Assets for Southeast Asia Countries Sample

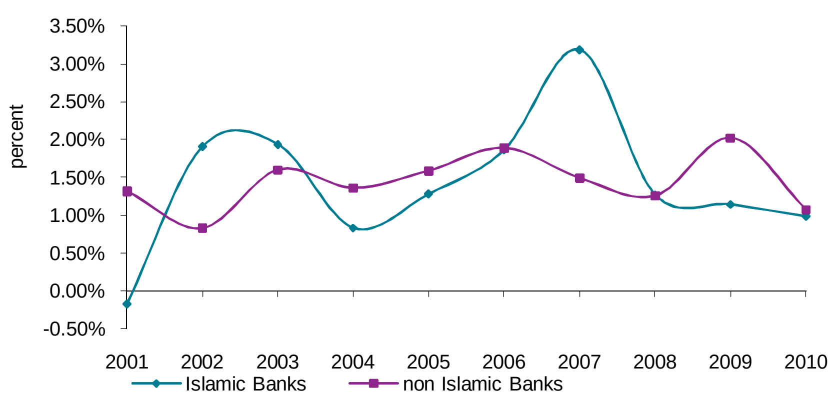

Figure 10: Return on Equity for Southast Asia Countries Sample

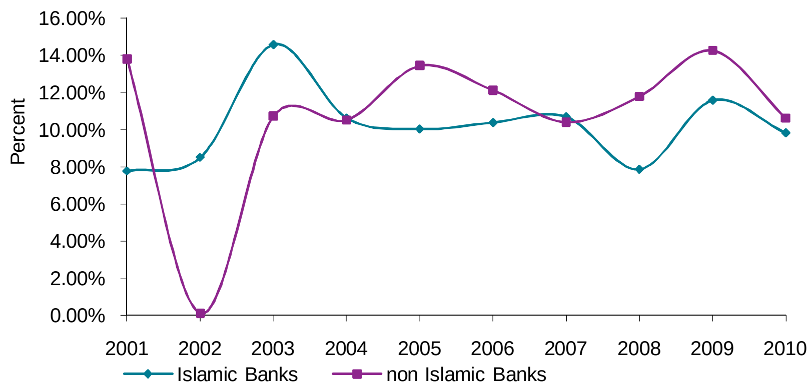

Figure 11: Assets Growth for Southeast Asia Countries

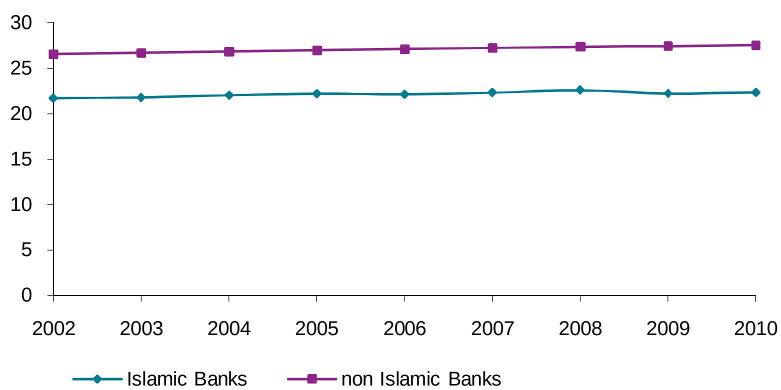

Figure 12: Assets Growth Rate for Southeast Asia Countries

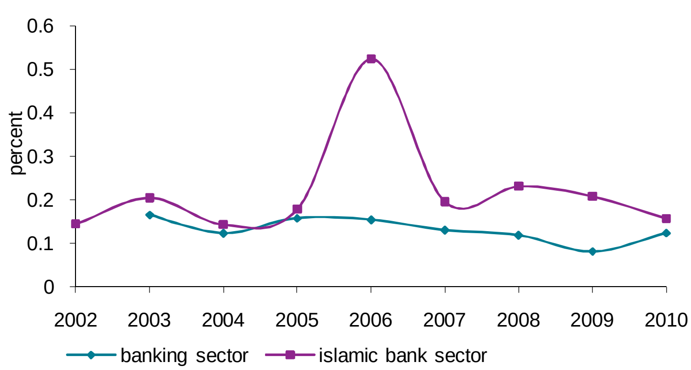

Figure 13: Return on Assets for all Islamic Banks Samples

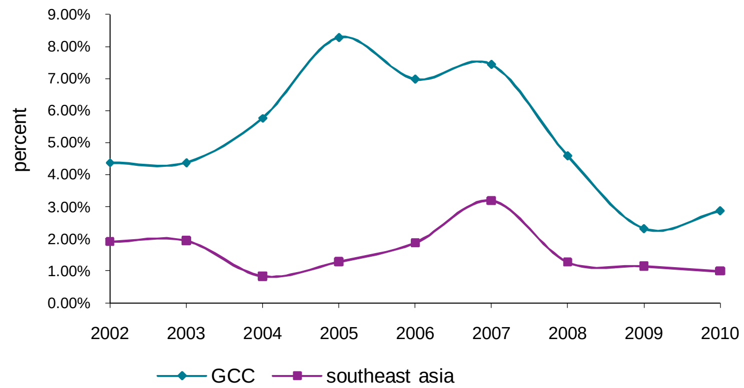

Figure 14: Return on Equity for all Islamic Banks Samples

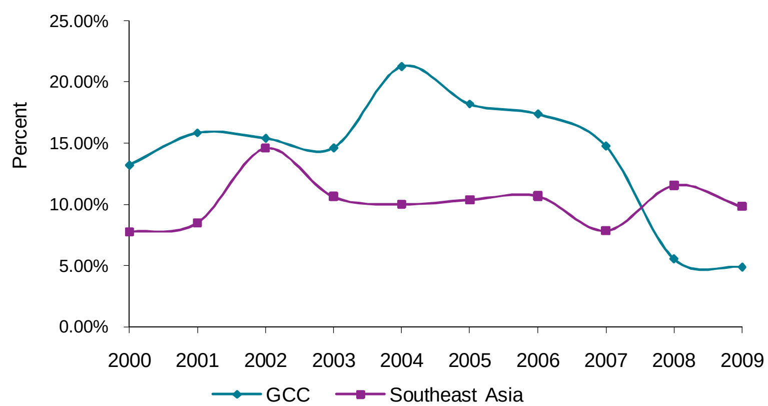

Figure 15: Assets Growth rate for all Islamic Banks Samples

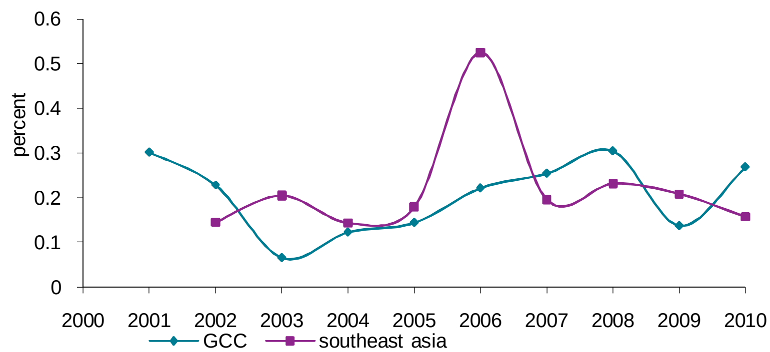

Table 1: Market Share and Average Annual Asset Growth of Islamic and Conventional Banks in Selected Countries (Percent)

	Islamic Banks' Assets in Total Assets in 2008	Growth Rate of Assets Islamic Banks)	Growth Rate of Assets[1] (Banking System)	Period
Saudi Arabia[3]	35	33.4	19	2002-2008
Bahrain[2]	29.9	37.6	7.9	2000-2008
Kuwait	29	23.2	14.3	2002-2008
UAE	13.5	59.8	38.1	2002-2008
Qatar	11.5	65.8	31.9	2002-2008
GCC average	23.8	44	22.6	2002-2008

Notes: [1] Including Islamic banks. [2] Including Islamic windows. [3] Growth rate is calculated for the total of wholesale and retail while market share is for retail only.

Source: International Monetary Fund, World Economic and Financial Survey, Regional Economic Outlook, Middle East and Central Asia (October, 2009)

Table 2: Sample Selection during the Period 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of Islamic banks	15	16	31	50	55	77	82	90	90	90
Number of conventional bank	85	85	85	85	85	85	85	85	85	85

Table 3: Mean and Median of Selected Financials Variables

Panel A: Yearly comparison for all Islamic banks

Variables	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
book value of assets (billions of dollars**)**										
Mean	1.58	2.561	2.19	2.29	2.62	2.94	3.13	3.92	5.64	11.39
Median	0.4	0.55	0.66	0.87	0.72	0.73	0.97	1.79	2.7	3.52
ROA (percent**)**										
Mean	5.1	1.5	3.3	3.4	4.4	6.3	6.8	5.6	2.4	2.7
Median	2.1	1.4	2.2	2.1	2.8	4	3.4	3.7	2.3	1.8
ROE (percent**)**										
Mean	11.3	10.7	21	15.1	13.4	16.3	9.5	15	9.7	4.4
Median	9.8	10.5	12.5	11.4	13.1	13.9	13.2	15.4	9.8	3.9
AGE (year**)**										
Mean	15	16	16	16	15	14	12	12	13	14
Median	16	17	18	19	15	11	8	5	7	8

Panel B: 2000-2009 comparisons for all Islamic banks

Variables	Mean	Median	Minimum	Maximum
AGE (year**)**	**14**	**11**	1	34
book value of assets (billions of dollars**)**	**4.59**	**1.23**	0.55	33.02
ROA (percent**)**	**4.25**	**2.62**	-29.10	40.25
ROE (percent**)**	**13.37**	**12.74**	-69.55	65.45

Panel C. 2000-2009 comparisons for Islamic banks in GCC countries

	Mean	Median	Minimum	Maximum
AGE (year**)**	15	13	1	34
book value of assets (billions of dollars**)**	3.15	1.03	0.12	32.88
ROA (percent**)**	5.477	3.840	-13.9	27.307
ROE (percent**)**	14.426	13.558	-6.95	45.449

Panel D. 2000-2009 comparisons for Islamic banks in Southeast Asia countries

	Mean	Median	Minimum	Maximum
AGE (year**)**	12	10	1	32
book value of assets (billions of dollars**)**	0.832	0.23	0.55	33.01
ROA (percent**)**	1.43	1.31	-29.10	33.58
ROE (percent**)**	10.64	10.68	-33.40	38.34

Table 4: Mean and Median of Selected Corporate Governance Variables for All Samples of Islamic Banks

Panel A: yearly comparison

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Age	Mean	14.3	15.7	16.1	16.1	14.5	13.8	12.1	12.1	13.1	14.1
	Median	16.0	17.0	18.0	19.0	13.0	9.5	8.0	6.0	7.0	8.0
Board meeting	Mean	-	-	-	4.0	8.3	15.6	8.9	10.0	8.6	8.7
	Median	-	-	-	4.0	8.0	13.5	7.0	7.0	7.0	7.0
Board size	Mean	9.0	8.9	8.5	8.3	8.4	8.1	8.2	8.3	8.4	8.6
	Median	9.0	9.0	9.0	9.0	9.0	8.0	8.0	8.0	9.0	9.0
Non executive	Mean	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
	Median	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Outside director	Mean	0.7	0.6	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6
	Median	0.7	0.4	0.4	0.6	0.6	0.5	0.5	0.5	0.6	0.5
Woman director	Mean	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Median	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Old director	Mean	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0
	Median	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign director	Mean	0.1	0.1	0.3	0.2	0.4	0.3	0.3	0.4	0.3	0.3
	Median	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.3	0.2	0.3
Director fees*	Mean	242 649	279 446	282 364	372 537	320 089	392 674	511 005	674 973	862 736	904 258
	Median	244 300	240 000	244 800	272 000	244 800	286 000	283 586	434 880	444 200	411 840
CEO tenure	Mean	3.7	4.3	4.0	3.6	3.3	2.9	3.4	3.6	4.0	5.1
	Median	3.5	4.0	3.0	2.0	2.0	2.0	3.0	3.0	3.0	4.0
CEO duality	Mean	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
	Median	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CEO founder	Mean	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
	Median	0.5	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.5	1.0
CEO age	Mean	44	43	47	48	49	49	51	54	54	49
	Median	44	42.5	46	48.5	49.5	50	52	52	53	54
Number of committee	Mean	2.5	2.7	2.5	2.5	2.7	3.0	3.0	3.3	3.3	3.5
	Median	2	2	2	2	3	3	3	3	3	4

Notes: ***expressed in US Dollar. **Age:** Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Panel B: 2000-2009 Comparisons for all Islamic banks

Variables	Mean	Median	Minimum	Maximum
Age	13.85	11.00	1.00	34.00
Board Meeting	9.51	7.00	1.00	49.00
Board Size	8.37	9.00	4.00	14.00
Non Executive*	82	88	0	100
Outside Director*	57	50	0	100
Woman Director*	1	0	0	17
Old Director*	5	0	0	50
Foreign Director*	32%	13%	0%	100%
Director Fees**	640 413	330 000	245 000	9513 280
CEO Tenure	3.77	3.00	1.00	16.00
CEO Duality	9%	-	-	-
CEO Founder	49%	-	-	-
CEO Age	50.17	52.00	40	66.00
Number Of Committee	3.14	3.00	1.00	6.00
CEO Salary	318 379	257 472	7 488	954 720

Notes: ***expressed in percent; ****expressed in US Dollar; **Age:** Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee

Panel C 2000-2009 comparisons for Islamic Banks in GCC Countries

Variables	Mean	Median	Min	Max
Age	14.87	13	2	34
Board Meeting	6.82	6	2	17
Board Size	8.53	9	5	14.00
Non Executive*	84	89	0	100
Outside Director*	63	67	0	100
Woman Director*	0	0	0	17
Old Director*	4	0	0	33
Foreign Director*	34	9	0	100
Director Fees**	723 885.	380 800	245 000	9 513 280
CEO Tenure	3.89	3.00	1.00	16.00
CEO Duality	13%	-	-	-
CEO Founder	57%	-	-	-
CEO Age	49.54	51.50	4.00	59.00
Number Of Committee	2.97	3	1	6

Notes: ***expressed in percent. ****expressed in US Dollar. **Age:** Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age:** The age of the CEO, **Number Of Committee:** Number of Board of Directors' committee.

Panel D: 2000-2009 comparisons for Islamic Banks in Southeast Asia

Variables	Mean	Median	Minimum	Maximum
Age	9.59	6.50	1	27
Board Meeting	10.38	9	1	49
Board Size	7.99	8	4	13
Non Executive*	79	86	0	100
Outside Director*	52	50	25	100
Woman Director*	3	0	0	17
Old Director*	9	0	0	50
Foreign Director*	26	17	0	88
Director Fees**	433 0078	197 811	16 992	3 821 294
CEO Tenure	3.50	3	1	12
CEO Duality	0	-	-	-
CEO Founder*	29%	-	-	-
CEO Age	48.97	50	33	66
Number Of Committee	3.48	3.50	1	6.
CEO Salary	318 380	257 472	7 488	954 720

Notes: ***expressed in percent. ****expressed in US Dollar. **Age: Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Table 5: Comparison of Descriptive Statistics on Selected Corporate Governance for Islamic Banks and Conventional Banks

Panel A: all Islamic banks versus non-Islamic banks

Variables	Islamic bank	Non Islamic Bank	Signification
Board Meeting	9.511	9.394	
Board Size	8.372	9.210	**
Non Executive	81.88%	82.63%	
Outside Director	57.15%	57.16%	
Woman Director	0.85%	2.12%	**
Old Director	5.32%	15.79%	***
Foreign Director	31.81%	19.21%	***
Director Fees	640 414	1 647 471	***
CEO Tenure	3.768	7.236	***
CEO Duality	9.50%	3.86%	***
CEO Founder	48.73%	10.70%	***
CEO Age	50.167	55.536	*
CEO Salary	318 380	648 751	***
Number Of Committee	3.138	3.381	

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Panel B: Islamic banks in Southeast Asia vs. non Islamic banks in Southeast Asia

Variables	Islamic bank	Non Islamic Bank	Signification
Board Meeting	10.38	11.16	
Board Size	7.99	8.93	
Non Executive	78.73%	76.35%	
Outside Director	51.77%	50.74%	
Woman Director	2.66%	4.83%	**
Old Director	8.84%	23.13%	**
Foreign Director	26.09%	9.25%	***
Director Fees[1]	433 007	1 279 221	***
CEO Tenure	3.50	5.50	**
CEO Duality	0%	1.80%	**
CEO Founder	29.03%	49.51%	***
CEO Age	48.97	53.02	*
CEO Salery[1]	318 380	648 751	***
Number Of Committee	3.48	4.09	*

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. [1] expressed in US Dollar. **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Panel C: Islamic banks in GCC countries vs. non Islamic banks in GCC countries

Variables	Islamic bank	Non Islamic Bank	Signification
Board Meeting	6.81	6.75	
Board Size	8.52	9.39	*
Non Executive	83.82%	86.60%	
Outside Director	62.89%	61.72%	
Woman Director	0.2%	0.64%	*
Old Director	3.65%	11.10%	**
Foreign Director	33.71%	25.77%	**
Director Fees[1]	723 885	1 919 009	***
CEO Tenure	3.89	8.40	***
CEO Duality	13.0%	5.4%	**
CEO Founder	56.6%	12.5%	***
CEO Age	49.54	57.81	***
Number Of Committee	2.97	2.99	

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. [1] expressed on US dollar. **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Table 6: Comparison of descriptive statistics on selected corporate governance for Islamic banks in GCC countries and Southeast Asia countries

Variables	GCC ISLAMIC BANKS	SOUTEAST ASIA ISLAMIC BANKS	Signification
Age	14.9	9.6	
Board Meeting	6.8	10.4	**
Board Size	8.529	7.990	
Non Executive	83.82%	78.73%	
Outside Director	62.89%	51.77%	
Woman Director	0.2%	2.66%	***
Old Director	3.65%	8.84%	***
Foreign Director	33.71%	26.09%	**
Director Fees[1]	723 885	433 007	***
CEO Tenure	3.9	3.5	***
CEO Duality	13.04%	0%	***
CEO Founder	56.59%	29.03%	***
CEO Age	49.54	48.97	*
Number Of Committee	2.97	3.48	

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. [1] expressed in US dollar. **Age:** Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Non Executive:** The percentage of the non executive director in the board, **Outside Director:** The percentage of outside directors in the board of directors; **Woman Director:** The percentage of women directors in the Board of directors. **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure:** The number of years the CEO has been in that position; **CEO Duality:** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder:** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age: The** age of the CEO, **Number Of Committee :** Number of Board of Directors' committee.

Table 7: Comparison of descriptive statistics on selected of Sharia Supervisory Board variables for Islamic banks in GCC countries and Southeast Asia countries

	ALL ISLAMIC BANKS	GCC ISLAMIC BANKS	SOUTEAST ASIA ISLAMIC BANKS	Signification
SSB size	4.327	4.149	4.908	*
SSB interlock	0.878	0.937	0.694	***
SSB AFC	0.104	0.106	0.094	*
SSB Women	0.006	0.001	0.032	***

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. **SSB size:** The size of the SSB; **SSB interlock:** The ratio of the SSB members with interlocks to the overall number of the members serving on SSB; **SSB AFC:** The percentage of SSB members with accounting/ finance knowledge; **SSB Women:** The percentage of Women present in the Shari'a Supervisory Board.

Table 8: Regression Results

	All Islamic Bank Panel A		GCC Panel B		Southeast Asia Panel C	
	ROA	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**
Bank size	0.004	0.010	0.006	0.12	0.175	0.023
	(-0.002)	(-0.35)	(-0.89)	(-0.057)	(0.134)	(0.097)
AGE	-0.001	0.001	-0.002	0.000	0.003	-0.002
	(0.29)	(0.59)	(-1.80)*	(0.03)	(0.39)	-0.35
Board size	0.001	-0.025	-0.003	-0.007	-0.001	0.010
	(0.4)	(1.29)	(0.76)	(0.98)	(0.17)	(0.56)
woman director	-0.156	-0.267	-0.583	-0.286	-0.461	0.780
	(1.08)	(0.96)	(-2.05)**	(0.53)	(0.04)	(1.49)
old director	0.066	-0.384	0.087	0.162	-0.059	0.116
	(0.11)	(1.54)	(0.90)	(0.61)	(1.02)	(0.42)
foreign director	0.011	-0.014	-0.037	-0.097	-0.097	-0.225
	(0.62)	(0.44)	(-1.79)*	(1.42)	(-2.08)**	(-1.81)*
director fees	1.12	2.19	1.2	1.9	1.87	1.07
	(2.78)***	(2.50)***	(3.25)***	(2.36)**	(1.10)	(1.84)*
CEO tenure	-0.002	0.004	0.040	0.002	0.001	-0.007
	(0.85)	(0.27)	(2.46)**	(-1.90)**	(0.18)	(0.39)
CEO duality	0.038	0.085	0.039	0.060	-	-
	(1.95)**	(2.20)**	(1.98)**	(1.86)**	-	-
CEO founder	-0.001	0.047	0.018	0.194	0.025	0.046
	(0.09)	(0.89)	(1.24)	(2.75)**	(1.13)	(0.37)
CEO age	0.005	0.014	0.004	0.005	0.113	0.000
	(3.66)**	(3.46)**	(5.59)***	(2.12)**	(0.84)	(0.34)
SSB size	-0.005	0.054	0.012	-0.004	-0.043	0.135
	(0.83)	(0.14)	(1.67)	(0.16)	(-1.81)*	(1.32)
SSB interlock	0.036	0.424	0.041	0.045	-0.332	-0.778
	(0.87)	(0.83)	(0.76)	(0.48)	(-2.95)***	(0.96)
SSBACF	0.075	0.842	0.079	0.036	-0.140	0.671
	(1.87)**	(0.51)	(1.78)**	(0.28)	(1.14)	(1.81)
women presence	-0.042	-0.605	-0.339	-0.235	-0.077	-2.043
	(0.21)	(0.96)	(1.41)	(0.45)	(0.26)	(1.81)
const	0.005	0.152	0.032	-0.221	0.761	0.512
	(0.09)	(0.81)	(0.86)	(1.76)*	(0.45)	(0.33)
R^2	0.191	0.79	0.23	0.49	0.41	0.45

Notes: ***. **and* indicate significance respectively at the1%, 5% and 10%. t-statistics are corrected for heteroskedasticity following White's methodology. **Bank size:** LN total assets**, Age:** Age of the bank; **Board Meeting:** Number of meeting held by the Board of director during the year, **Board Size:** The number of directors in the board of director; **Woman Director:** The percentage of women directors in the Board of directors, **Old Director:** The percentage of directors over the age of 65 in the board; **Foreign Director:** The percentage of foreign directors in the board; **Director Fees:** The annual payment made to directors; **CEO Tenure :** The number of years the CEO has been in that position; **CEO Duality :** Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board; **CEO Founder :** Is a dummy variable set equal to 1 if the CEO is also the founder, **CEO Age :**The age of the CEO, **Number Of Committee :** Number of Board of Directors' committee, **SSB size :** The size of the SSB; **SSB interlock :** The ratio of the SSB members with interlocks to the overall number of the members serving on SSB; **SSB AFC :** The percentage of SSB members with accounting/ finance knowledge; **SSB Women :** The percentage of Women present in the Shari'a Supervisory Board.

Appendix

Variables:	Definition
Bank size	LN total assets
Age	Age of the bank
Board Meeting	Number of meeting held by the Board of director during the year
Board Size	The number of directors in the board of director
Non Executive	The percentage of the non executive director in the board
Outside Director	The percentage of outside directors in the board of directors
Woman Director	The percentage of women directors in the Board of directors
Old Director	The percentage of directors over the age of 65 in the board
Foreign Director	The percentage of foreign directors in the board
Director Fees	The annual payment made to directors
CEO Tenure	The number of years the CEO has been in that position
CEO Duality	Is a dummy variable set equal to 1 if the CEO is also Chairman of the Board
CEO Founder	Is a dummy variable set equal to 1 if the CEO is also the founder
CEO Age	The age of the CEO
Number Of Committee	Number of Board of Directors' committee
SSB size	The size of the SSB
SSB interlock	The ratio of the SSB members with interlocks to the overall number of the members serving on SSB
SSB AFC	The percentage of SSB members with accounting/ finance knowledge
SSB Women	The percentage of Women present in the Shari'a Supervisory Board.