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The impact of board indecency on Islamic bank performance in GCC

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Research Problem

- Islamic banks need a different governance from other banks
- Explore the impact of independent board members on the performance of Islamic banks in GCC
- No clear evidence of a relationship between board composition and firm performance was found (Hermalin & weisbach, 2003)

Theory of the study

Stewardship theory

Independency has no impact on the performance of firm. An Internal manager is more capable to manage the firm (Donaldson, 1990; Donaldson and Davis, 1991, 1994).

H₀ There is no impact of independent board members on Islamic bank performance in GCC.

Agency theory

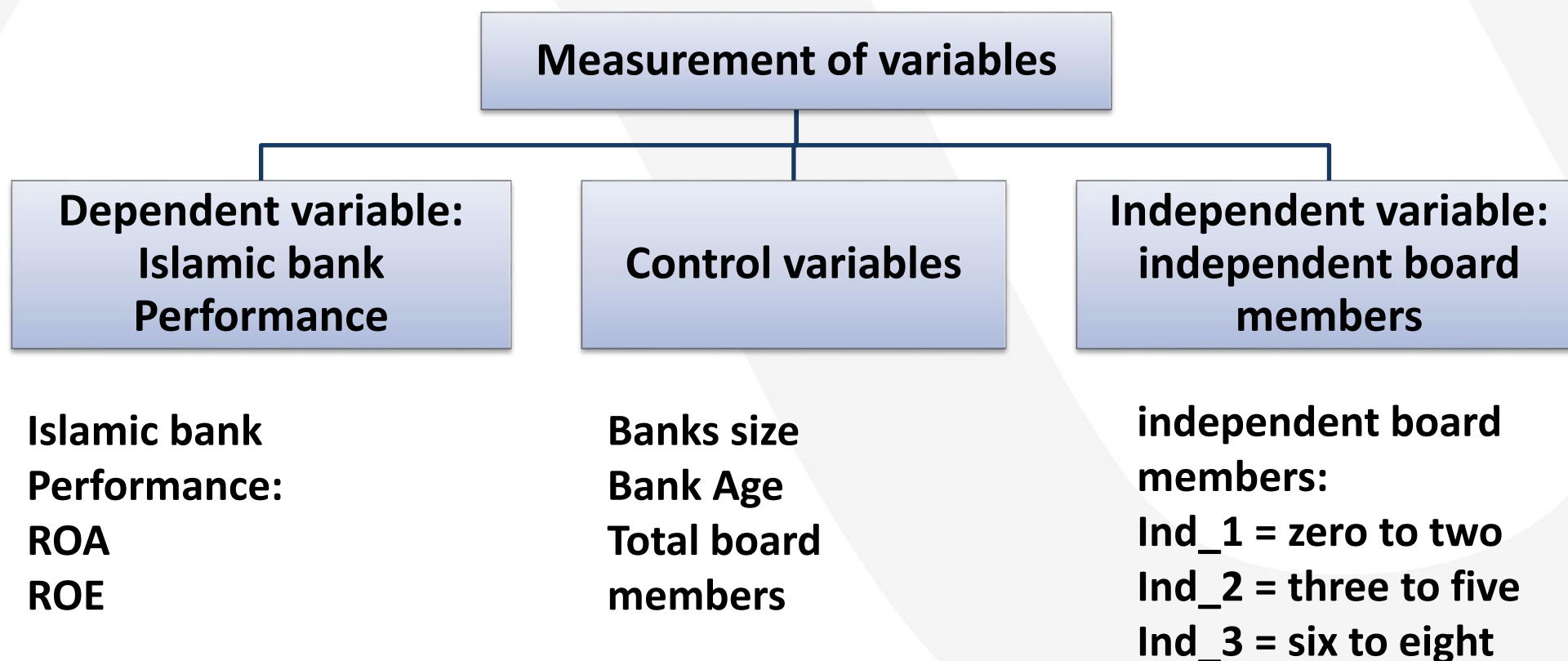
Including independent board members can reduce agency cost (Mobbs, 2013).

H_a There is an impact of independent board members on Islamic bank performance in GCC.

Methodology

Table1: Sample Selection		
No.	Sector	Final study sample
1	Bahrain	5
2	KSA	12
3	Kuwait	6
4	Qatar	3
5	UAE	4
	Total	30

Methodology



Advance descriptive analysis

Independent board of directors

Median = 50%

High independency

Low independency

High ROA

Low ROA

High ROE

Low ROE

Younger aged Islamic banks

Older aged Islamic banks

Big sized Islamic banks

Small sized Islamic banks

Performance of Islamic bank's

Empirical Analysis and test of hypothesis

- Two sub hypothesis:
- H_0 : There is no impact of Ind_1 on Islamic bank's performance.

Table9: Empirical analysis

Independent variable	Label	ROA model		ROE model	
		T-test	Sig.	T-test	Sig.
zero to two independent member	Ind_1	2.548	.013	1.916	.059

$0.013 \text{ \& } 0.059 < 0.05$



Accept the first sub alternative hypothesis

Empirical Analysis and test of hypothesis

- H_0 : There is no impact of Ind_3 on Islamic bank's performance.

Table9: Empirical analysis

Independent variable	Label	ROA model		ROE model	
		T-test	Sig.	T-test	Sig.
Six to eight independent member	Ind_3	-0.596	.553	-0.077	.939

$0.553 \text{ \& } 0.939 > 0.05$



Reject the second sub alternative hypothesis

Empirical Analysis and test of hypothesis

- After accepting the first sub hypothesis and rejecting the second. The study reject the alternative hypothesis:
- **Ha: There is an impact of independent board members on Islamic bank performance in GCC.**

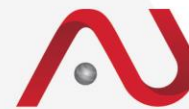
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Conclusion and Recommendations

- It was noticed that the independency of board members level in GCC was 31.3% witch considered to be a low percentage.
- The independent board member (Ind_1) have a significant impact and a positive relation with ROA, but insignificant and negative impact on ROE.
- The independent board member (Ind_3) have negative relationship with ROA and ROE insignificant for both study models.
- Total board members have a positive impact on ROA and ROE, with a significant results for model ROA only.
- The size of the Islamic bank and the performance have a negative relation, with insignificant results for both models.
- A significant and positive impact is found of bank age on Islamic bank performance.
- ROA model represent the study more than ROE model.

Conclusion and Recommendations

- Having more than two independent member in the board will not benefit Islamic banks in GCC.
- Increase transparency between internal and external members.
- Develop corporate code for IBs.



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