

Impact of Panel of Board and Shari'ah Penal on Zakat Reserves in Islamic Banks of Pakistan

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Abstract:

Islamic banks' operations and practices in Pakistan are highly influenced by the Panel of Boards and Shari'ah Penal. Zakat reserves management is one of the significant responsibilities they oversee. Islam requires Muslims to give zakat, which is an obligatory charity. In addition, it provides a means of redistributing wealth and elevating the less fortunate in society. Therefore, the purpose of this study is to analyze the impact of the Panel of Boards and Shari'ah Penal on the Zakat reserves in Islamic banks in Pakistan. Furthermore, it seeks to determine how these governing bodies are responsible for ensuring that Zakat reserves are properly utilized and distributed. As a result, this is in accordance with Islamic principles. During the period of 2017-2022, data were collected from Pakistani Islamic banks' annual reports. EViews version 10 also applied a penal data regression test to analyze data. The coefficient of the variable POB size was 3.7071. Accordingly, the size and reputation of the penal board was found to have a significant positive impact on the zakat reserves. As well, the study found that varying Shari'ah positive measures (SSP) had a significant impact on the zakat reserve ($p=0.0021$). This study concluded that larger POBs and SSPs can increase zakat contributions, indicating that larger POBs and SSPs contribute to social responsibility. The study also found that POB compensation influences zakat reserves in a significant manner, demonstrating the sufficiency of compensation. As compensation increases costs for Islamic banks, this increase can be managed since it may be determined by the performance of the bank. This study contributes to the existing literature on Islamic banking and finance. In addition, it can provide guidance for policymakers and stakeholders in the industry.

Keywords: Zakat Reserves Performance, Penal Board, Shari'ah Penal, Corporate Governance

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1. Introduction

As a result of COVID-19, a global health emergency, Indonesia experienced an economic catastrophe with a GDP growth rate of 2.97 percent in the first quarter of 2020. Growth in the second quarter was negative by 5.32%. In addition to increasing poverty, the pandemic resulted in 25.44 million homeless individuals in 2020, an increase of 0.38% over 2019. There is evidence that Islamic financial institutions prioritize societal obligations and financial objectives, which may reduce social poverty and enhance economic competitiveness (Asutay et al., 2015; Hamidi et al., 2021; Mohammed et al., 2015). In Pakistan, Islamic banks collect and distribute zakat reserves as part of their social responsibility programs, with annual reports detailing the origins and uses of these funds. As per the 1973 Constitution of the Islamic Republic, the administration of the country is governed by the consent of the authorities. There are Zakat Gathering Units under the Edhi Foundation that distribute Zakat assets to the public, possibly in collaboration with Muslim aid organizations.

Islamic banking is gaining popularity due to economic expansion. Islamic banks need sound corporate governance to function effectively. Islamic banks serve both financial and social purposes, and their performance can be improved through corporate governance. Islamic banks' governance mechanisms only partially explain shareholder value increases, suggesting superior governance structures. To improve their viability, Islamic banks should focus on administration issues and prioritize their corporate governance structure (Antonio et al., 2012; Mohamed, 2016 and Ulussever 2018). As such, Islamic banks should strive to strengthen their corporate governance structure to improve their performance.

Amine (2018) posits that this method protects stakeholder interests and manages organizations. In corporate management, partners' freedoms are protected by effective governance, adequate internal controls, professional evaluations, and reliable financial disclosure (Mohamed, 2016). Many previous research studies have looked into and discovered the advantages of corporate control in banks (Abdallah et al., 2021; Almutairi et al., 2017; Amine, 2018; Darwanto et al., 2019; Farag et al. (2018); Hakimi et al., 2016; Khalil, 2021; Khan et al., 2020; Nawaz, 2019; Nomran et al., 2018) these previous studies imply that the responsibility for monitoring the workings of the financial performance is more important than the investigation of the government's role in Islamic banking.

Scholars haven't focused much on governance's role in improving social performance. Thus, this study investigates how governance affects zakat funds distribution at Islamic banks. Muslim community members give zakat to help the underprivileged. In a study, [Watkins et al., \(2020\)](#) claim that zakat eradicates poverty. Banks include zakat in display calculations ([Nomran et al., 2022](#)). According to an earlier study outside Islamic banks, governance is linked to social/non-financial success. [Kyazze et al. \(2017\)](#) found that corporate control and financial performance are linked in Pakistan. [Harjoto et al. \(2019\)](#); [Shu et al. \(2020\)](#) and [Ozalin \(2019\)](#) studied how governance affects environmental and societal performance.

Penal of Board (POB): The Penal of Board (POB) refers to a governing body established with the purpose of ensuring fair and just decisions in various domains. It is responsible for overseeing and administering disciplinary actions, as well as enforcing rules and regulations within a specific organization or jurisdiction. Penal of Board (POB) is a governing body entrusted with the responsibility of maintaining fairness, integrity, and ethical standards within an organization or jurisdiction. Its role in enforcing rules and regulations, conducting investigations, and making informed decisions contributes to the overall well-being and credibility of the entity it serves ([Aslam et al., 2022](#); [Nomran et al. 2022](#); and [Reyad, et al. 2022](#)).

Shari'ah Supervisory Penal (SSP): refers to a set of rules and regulations implemented within an Islamic financial institution to ensure compliance with the Shari'ah principles. The primary purpose of the SSP is to provide a framework that governs the conduct of the institution and its employees, ensuring that all activities and transactions are in accordance with Islamic law. Shari'ah Supervisory Penal (SSP) is a vital component of Islamic financial institutions, providing a comprehensive framework for ensuring Shari'ah compliance. It establishes standards, procedures, and penalties to safeguard the institution's integrity and maintain the trust of stakeholders. By adhering to the SSP, Islamic financial institutions can demonstrate their commitment to ethical and responsible financial practices in accordance with Islamic principles ([Aslam et al., 2022](#); [Nomran et al. 2022](#); [Reyad, et al. 2022](#)).

In Islamic finance, corporate governance and leadership POBs make up the administrative structure. A Shari'ah penal (SSP) is separate from a regular bank and is responsible for ensuring that the Islamic banks' operational structure complies with Shari'ah law ([Almutairi et al., 2020](#); [2020](#); [Khalil et al., 2020](#)). According to [Farag et al. \(2018\)](#), the SSB is solely responsible for Islamic banks' administration design. Therefore, it is often assumed that Islamic banks have

three main administrative structures: the penal board (POB), the Supreme Court, and the SSP. Shari'ah penal and penal board (POB) are two of the three primary administrative structures.

Several studies have looked at how the size of the POB affects Islamic bank performance due to the responsibility of business control. According to [Almutairi et al. \(2017\)](#), POB size improves financial performance significantly ([Amine, 2018](#); [Darwanto et al. 2019](#); [Nawaz, 2019](#); [Hakimi et al., 2016](#); and [Ulussever, 2018](#)). POB size and performance must be considered. Despite the previous investigation outlined above showing that POB size significantly affects performance, other analyses revealed different results. Several studies have found that a larger POB negatively affects financial performance ([Elgadi et al., 2021](#); [Frag et al., 2018](#)).

SSPs provide oversight, guidance, and ideas to the penal system. SSP quality is determined by SSP size. [Almutairi et al. \(2017\)](#); [Nomran et al. \(2018\)](#) and [Amine \(2018\)](#) found empirical evidence that SSB increases financial success. [Nawaz \(2019\)](#) found that SSP size negatively impacts performance. In this study, we explore how SSP size affects social performance as measured by zakat funds. In addition to SSP's size, SSP's reputation is well-researched. As [Nomran et al., \(2018\)](#) found, the SSP's rank affects the presentation. Besides organizational structure, remuneration improves performance. Financial performance is affected by executive remuneration ([Amine, 2018](#); [Isa et al., 2015](#); [Pangestu et al., 2019](#)). The results of other studies differ. According to [Kutum \(2015\)](#) and [Akanji et al., \(2006\)](#) chief compensation significantly influences financial operations.

As a result of the aforementioned rationale, a previous analysis based on the POB, the SSP size, and the SSP notoriety yielded conflicting results, indicating the need for further study. Performance and pay have been studied similarly. This study aims to determine how the POB (compensation and size) and the SSB (compensation and size) affect Zakat finances. The work advances earlier studies. Islamic banking studies have overwhelmingly focused on corporate management's impact on financial execution ([Abdallah et al., 2021](#); [Darwanto et al., 2019](#); [Harisa et al., 2019](#); [Khalil et al., 2020](#)). To measure how governance impacts Islamic banks' financial performance, this study analyzes zakat funds. Zakat is a part of bank execution according to [Nomran et al. \(2022\)](#). Friends' performance was examined in earlier studies of administration influence. A study by [Johnson et al. \(1999\)](#) examined how governance affects worker relations. Governance and corporate social responsibility were studied by [Harjoto et al., 2019](#); and [Kyazze et al., \(2017\)](#).

This study explores the impact of executive compensation on social performance in Islamic banks. It focuses on the relationship between banking operations and microclimate performance. It also examines the role of zakat money and board compensation in enhancing social performance. The research builds on previous studies by [Iryani et al. \(2020\)](#); and [Nugraheni \(2018\)](#), focusing on governance's influence on Islamic banks' social performance. The study further examines POB compensation and SSP size. The article also discusses the management of zakat reserves by Islamic banks in Pakistan, conducting a theoretical review of relevant literature and interpreting five areas from the review and discussion ([Haque et al., 2020](#); [Ritz, 2022](#)). The article uses theoretical concepts and existing literature to explore the relationship between governance, POB compensation, SSP size, and the management of zakat reserves by Islamic banks in Pakistan. It also provides an in-depth analysis of the implications of these relationships for social performance.///

2. Review of the Theoretical Literature

2.1 Corporate Governance

[Khan \(2020\)](#) argues that effective boards of directors, internal controls, and audits ensure that stakeholders' interests are protected. Other external stakeholders, including shareholders, bondholders, creditors, suppliers, customers, and members of the community, are part of this system. Governing board members and employees are internal stakeholders. Islamic banks were examined using five criteria based on a bank board approach. Accountability, openness, independence, and transparency are GCG (Good Corporate Governance) banking legislation. Islamic banks are governed differently than traditional banks. Based on [Farag et al. \(2018\)](#); and [Khalil \(2021\)](#), Islamic banks' management structures should be Shariah-compliant, monitored directly by the SSP, and consistent with dual administration.

POBs are responsible for the bank's well-being. In this context, reasonableness, Islamic standards, and hazards are applied. Boards of directors of conventional and Islamic banks have similar duties. Using Islamic finance principles increases POB responsibility and expectations according to [Almutairi et al. \(2020\)](#). Compliance directors oversee Islamic banks' compliance with laws, including Fatwas from Pakistani scholars including those from *Mufti Taqi Usmani*, a leading scholar in Islamic *Shariah* and finance. The inability to adhere to Islamic standards can negatively impact Islamic banks. Pakistani Islamic banks need an SSP to oversee operations and uphold Islamic values. SSP and Sharia-compliant governance are strictly followed in these banks ([Farag et al., 2018](#)).

2.2 Islamic Bank Performance

In addition to financial factors, social factors play a significant role in Islamic banks' success. Many studies of Islamic banks' financial performance use well-known metrics, including ROE, ROA, Z-score, Net Performed Funding (NPF), CAMEL, and others. [Mukhibad \(2022\)](#) says Islamic banks have significantly benefited from public banks' analytical methods. Both performance and societal implementation are measured by Islamic banks. It promotes social objectives and advances justice. While Islamic banking services such as Zakat and Qardh al-hasan have been criticized, they aim to eradicate poverty ([Nomran et al. 2022](#); [Reyad, et al. 2022](#) and [Aslam et al., 2022](#)).

Zakat contributions provide the Islamic bank with its primary source of revenue, replacing profits and bonuses. In Islamic banks, zakat is calculated using a formula. Before zakat and income tax are subtracted, this amounts to 2.5% of profits. Zakat money is 2.5% of employee wages. Every month, 2.5% of profit sharing or incentives are put into a zakat reserve. Certain Islamic commercial banks have set up enterprises to deliver Zakat reserves, but Islamic banks are Zakat Gathering Units. They are supervised by the Public Zakat Edhi Foundation. Islamic banks transfer or represent zakat funds to certain organizations for charitable purposes. However, these businesses may eventually work with others ([Iqbal et al., 2022](#)).

2.3 Agency Concept

[Aslam et al. \(2022\)](#) argue that the agency concept complements other theories of corporate governance. In response to [Mitnick \(2019\)](#), agency relationships develop when people pay others to perform services and give them authority to make decisions. [Mitnick \(2019\)](#) asserts that the agency concept places the firm at the core of the agreement. It explains why agents are risk-averse, self-interested, opportunistic, and labor-averse ([Mitnick, 2019](#)). Agency issues are caused by the agent's views and a knowledge gap between the principal and the agent. An agency dilemma occurs when an agent acts against the principal's interests. Risk capacities and directions are isolated, leading to organizational problems.

According to the organization hypothesis, which is part of the game hypothesis, experts should support the head when competing interests are at stake ([Mitnick 2019](#)). Shareholders trust agents to make the right decisions if they are given the right incentives and continuously monitored. In addition to bonuses and stock options, management serves shareholders' interests. Meanwhile, observation requires expert commitment, a thorough examination of the

board's priorities, and financial analyses. As a result of gaining control and ownership, there are obvious office expenses. It is important to control these costs even if they don't always harm shareholders.

2.4 Stakeholder Concept

In addition to their founders (shareholders) and agents (management), businesses are governed by a variety of stakeholders. Participants in the firm's operations are motivated by their ability to influence the company or be impacted by it. Organizations are responsible for maintaining positive relationships with all stakeholders (Mukhibad *et al.*, 2022). Islamic governance studies often rely on the agency concept, developed by Edward Freeman in 1984. Governance enhances social and financial success. The Islamic Social Reporting (ISR) disclosures in Islamic banks' financial statements are now more transparent and accountable (Hussain *et al.*, 2021). This can affect performance and productivity significantly (Sarea *et al.*, 2021; Watkins *et al.*, 2020).

3. Theoretical Literature and Development of Hypotheses

3.1 Impact of the POB's Size on Zakat Reserve

The agency theory (and others) can explain how body size affects zakat assets. Among instruments and leaders, Mitnick (2019) places the business in the middle. Specifically, this concept (Mitnick 2019) asserts that experts are self-interested, entrepreneurial, risk-averse, and work-hating. An agency concept encourages experts to follow up on matters to administrators' advantage through monitoring procedures and agreement plans. In an agent behavior analysis system called POB size, Zakat reserve and POB size are linked. The size of the POB will motivate Islamic banks (raise the zakat reserve) to achieve social and financial success. POBs may have board members from different educational and professional backgrounds. It includes those who know that a zakat reserve is essential. In their study, Almutairi *et al.* (2017) found that larger sheets provide better recommendations to chief executive officers (CEOs).

Agency theory says principals are atypical shareholders. Stakeholders are broader in Islamic banks. In conventional banks, shareholders are considered principals. POB size and Zakat funds may be correlated by both stakeholder theory and agency concept. Further, agency papers must ensure that organizations do not disregard moral values, partners' rights, and interests, or the demands of an entire group of partners (Almutairi *et al.*, 2017). Investors and potential Zakat recipients determine how well an organization does, according to the Partner Hypothesis. In addition to Zakat reserve recipients, maintaining positive relationships is important.

Several empirical studies have shown that POB size affects financial performance (Almutairi et al., 2017). Ulussever (2018), Amine (2018), Darwanto et al. (2019), Hakimi et al. (2016, Nawaz, 2019) and Hakimi et al. (2019) are examples of this. In this paper, it is argued that POB size is also related to social performance, as is the zakat reserve. In addition, empirical evidence indicates a positive relationship between POB size and financial success based on the agency concept, stakeholder concept, as well as the stakeholder concept. Therefore, the following hypothesis was developed:

H1: The size of POB has a favorable impact on zakat reserves.

3.2 Impact of Compensation of POB on Zakat Reserve

An organization hypothesis seeks to motivate specialists not to conflict with their head's interests (Iqbal, 2021). If the chief gives the specialist an incentive, he might convince himself that the specialist will make the best decisions. The most common incentives are stock options, bonuses, and cash rewards. The Agency theory's executive compensation mechanism allows administrators to be compensated based on implementation according to (Iqbal et al. 2022). It is claimed that this chief compensation is intended to persuade specialists.

Islamic Business Banks and Islamic Specialty Units are governed by Regulation of Finance Authority of Pakistan. Payments to POBs can be set or changed. According to Iqbal et al. (2022), compensation can motivate leaders to perform better. According to Pangestu et al. (2019), body compensation plays a significant role in organizational performance. In research, executive remuneration is found to have a significant impact on social performance. According to Haque et al. (2020), CEO compensation affects carbon execution. In contrast to Kartadjumena et al. (2019), higher executive compensation may motivate the board. Increasing zakat reserves are predicted in this study for a person compensating for their body. Based on the agency concept and observational studies, chief compensation can benefit financial and social performance. As a result, the following primary hypothesis was developed:

H2: Compensation of POB has a favorable on zakat reserves.

3.3. Impact of the Size of SSP on Zakat Reserve.

POB and SSP size are important for the Zakat reserve. Governance practices minimizing client conflict and preventing managerial opportunism. Among the responsibilities of the SSP, an autonomous group of scholars in Fiqh Muamalat are issuing fatwas, conducting sharia audits, calculating zakat, allocating and disbursing non-sharia funds, providing social assistance to banks, and

establishing Islamic banking (Khalil et al., 2020). Additionally, SSP examines morality, ethics, and religion in accordance with the agency concept (Almutairi et al., 2020). Moreover, SSP oversees and supports banking products and services. Sharia principles will govern all bank transactions. SSP also advises directors on resource distribution. It allows forecasting the power of more SSPs. Thus, Islamic banks would be able to contribute more to zakat contributions on the social and financial fronts.

SSP constantly directs and educates the board on how to implement Islamic principles in everyday interactions in order to prevent set differences. Moreover, the SSP requires the POB to follow Shari'ah guidelines. Therefore, a large SSB needs support. Islamic banks increase Zakat reserves through various initiatives and administrations. SSPs provide administrators with guidance on how to distribute gains and losses. This tool also assists administrators in updating fatwas and donating illegal proceeds. In accordance with Islamic law, the SSP is responsible for assessing and distributing zakat (Khalil et al., 2020).

Islamic Business Banks requires that each group of SSP people be at least 2 (two) or no more than 50% of the total Body members. SSB size should be considered in the guidelines. In addition to lessening Sharia gambling, more SSP members can improve Islamic banks' reputations. Complying with Islamic principles and meeting societal criteria ensure this. Islamic businesses adopt a less aggressive approach to profitability according to (Iqbal et al., 2022). As Elamer et al. (2020) argue, Islamic corporate governance influences risk management disclosures. Other studies have shown that the size of an Islamic bank's SSB influences its financial performance (Amine, 2018; Darwanto et al., 2019; Nomran et al., 2018). According to Nugraheni (2018), SSP size affects social performance. Following the preceding research's theoretical underpinnings and empirical findings, we develop the following third hypothesis:

H3: SSP size has a favorable impact on zakat reserves.

3.4 Impact of compensation of SSP on Zakat Reserves

SSP's position can affect zakat assets according to the agency concept. Organizations can receive considerable benefits from their organization sheets if they use the agency concept (Aslam et al., 2022). Reputation is related to human resources. In addition to being crucial resources, board members have an impact on performance. SSP members' fame determines Islamic banks' success. An analysis of the role of board members in granting rights to assets is the focus of Aslam et al., (2022). Skills and experience are examples of assets.

Knowledge and competence in Islamic banking define a respected SSP. Due to their reputation, SSP members understand the importance of performing financially and socially.

The Pakistan Ulama Council will advise shareholders on SSP. Mukhibad et al. (2022) assert that SSP's solid reputation indicates its business acumen. As a result, they learn how the banking sector thrives. Nugraheni (2018) recommends that Islamic banks select SSP members from a pool of up-and-coming candidates with a solid track record in order to adhere to Islamic norms and improve customer service. SSP's position significantly affects banking financial operations. Nugraheni (2018) says SSP's reputation improves execution. According to their study, SSP's position influences zakat reserves' friendly execution. SSP stands for experimental evaluation. The following hypotheses were also developed:

H4: Compensation of SSP has a favorable impact on zakat reserves.

4. Research Methodology

This study included seven Pakistani banks. An analysis of measures of selection was conducted based on the following results: A bank must be primarily authorized by the Financial Services Authority. Consequently, this study allows banks to make informed decisions when selecting banks for their operations in Pakistan. In the period 2017-2022, Islamic banks were required to maintain zakat reserves. Ultimately, this study provides clear recommendations to assist banks in achieving their objectives in Pakistan. For the period 2017 - 2022, the corporation must prepare yearly reports, including a report on effective corporate governance. This requirement will help to ensure that Islamic banks remain compliant with Shariah law and that they are financially stable. Furthermore, the annual reports will provide the bank with a comprehensive overview of the operations, allowing them to make more informed decisions about their future plans. Annual reports are essential for Islamic banks to remain successful and compliant with Shari'ah law.

This research paper utilizes a quantitative research approach to analyze the impact of the POB and SSP on Zakat reserves in Islamic banks of Pakistan. Data were collected through a combination of secondary sources including analysis of financial reports, and review of existing literature. The collected data were analyzed using analysis to identify key themes and patterns related to the impact of the POB and SSP.

Following the completion of the requirements and the delivery of 75

observations, a sample of seven Islamic banks was selected. This sample enabled us to evaluate the impact of Islamic banking on the development of the financial sector. From 2017 to 2022, Islamic banks such as Meezan Bank, HBL Islamic, Bank Al-Habib, Faysal Islami Bank, Bank of Islami, MCB Islamic, and NRSP Islamic Bank successfully distributed zakat reserves. Overall, Islamic banking has contributed to the development and advancement of the financial sector through zakat reserves in Pakistan. Research on Shari'ah-compliant operations only lasted through 2020 due to the fact that Shari'ah has been integrated into Bank Shari'ah Pakistan since 2021. As such, Islamic banking is expected to continue to contribute positively to Pakistan's zakat reserves. In the form of yearly reports, data was collected and gathered from the official websites of each Islamic bank throughout six years (2017 - 2022). All in all, Islamic banking has the potential to become a major source of funding for Pakistan's zakat reserves. Islamic banking is based on the principle of interest-free lending, which eliminates the need for banks to charge interest to their customers. This has resulted in an increase in the amount of zakat contributions, as Islamic banking has become a popular choice for borrowers. As a result, Islamic banking is expected to continue to contribute positively to Pakistan's zakat reserves.

4.1 Theoretical Framework

This study examined zakat reserves as a dependent variable. Overall, the results indicated a positive relationship between zakat reserves and economic growth. The independent variables included the management of zakat reserves, the Penal of the Board (POB), and the Shari'ah Penal (SSP). The findings of this study suggest that zakat reserves can be managed effectively, leading to economic growth and social development. POB size and compensation as well as SSP size and compensation were considered independent variables. This suggests that a well-structured zakat reserve system, with appropriate POB and SSP size and compensation structures, can lead to economic growth and social development. The results of this study can be used to inform policy decisions and to help governments better manage zakat reserves. The control variables were the financial performance of Islamic banks and the size of the banks. A description of how the variables were estimated can be found in Table 1.

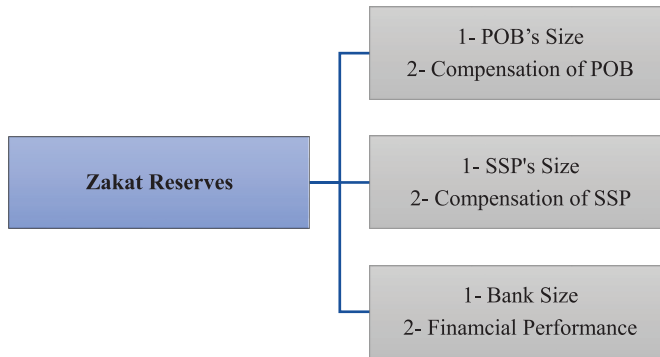


Figure 4.1: Theoretical Framework

Managing the information was accomplished through the use of EViews 10. It was the decision to use the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) as the evaluation technique that marked the beginning of the board's information crisis. Using the Chow, Lagrange Multiplier, and Hausman tests, the most effective approach was determined. After selecting the model, the Traditional Suspicion test, model evaluation, and assumption testing were conducted. It was the last phase of the process when recommendations were made, and conclusions were reached.

Table 4.1: Variables Measurements

Variables	Size
I-V	
POB's Size	No. of POB Representatives
Compensation of POB	Volume of Compensation of Collected by POB
SSP's Size	No. of SSP Representatives
Compensation of SSP	Ratio of Every SSP Members as
	Domestic Shari'ah Committee - Pakistan
D-V	Size
Zakat Reserves	Collections / Distribution of Zakat Reserves
C-V	
Bank Size	Total Assets
Financial Performance	Amount Net Profits

Source: POB Size based on *Almutairi et al. (2017); Hakimi et al. (2016); Nawaz (2019); Amine (2018); Ulussever (2018)*. POB Compensation based on *Pangestu et al. (2019)*. SSP Size based on *Darwanto et al. (2019); Noman et al. (2018)*. SSB Compensation based on *Nugraheni (20018)*.

5. Empirical Findings and Discussion

The findings of this research paper will shed light on the effectiveness of the POB and SSP in promoting transparency, accountability, and ethical practices in the management of Zakat reserves. It is expected that the research will demonstrate the positive impact of these regulatory bodies in ensuring compliance with Shari'ah principles, thereby enhancing the confidence of stakeholders in the Islamic banking sector. The findings will contribute towards the development of the relevant field by providing insights into the best practices for Zakat management in Islamic banks.

Below are the results of the descriptive statistical analysis conducted for this research (Table 2). Each year, banks contribute Rs. 9.7 billion to zakat reserves. Meezan Bank distributes the largest number of reserves, amounting to Rs. 6.6 billion, while the Bank of Islami distributes the smallest amount, amounting to Rs. 2 million. There were seven members in the POBs of the two largest Islamic banks, HBL Islamic Pakistan and Bank-Al Habib. Each of the smallest POBs, Faysal Islamic Bank, MCB Islamic, Bank Islami, and NRSP Islamic, had three members. Overall, Islamic banks contribute significantly to the zakat reserves, with Meezan Bank being the highest contributor.

As a result, the average POB compensation is Rs. 12.49 billion per year, with Meezan Bank receiving the highest compensation (Rs. 43 billion) and HBL Islamic Bank receiving the lowest compensation (Rs. 12 million). Typically, SSPs are composed of two individuals, with Bank of Islami Pakistan, Faysal Islamic Bank, and Bank Al Habib having the highest numbers (3 persons each). The MCB Islamic Bank and the NRSP Islamic Bank have the fewest representatives (2 each). Therefore, it can be concluded that the average POB compensation and number of SSPs vary greatly between banks.

The overall SSP compensation is 2.35 billion, with Meezan Bank and HBL Islamic scoring the most (normal score is 1) and SSP scoring the lowest (normal score is 6.06 billion). Additionally, the average net benefit value is RS. 7.08 billion, with Faysal Islamic Bank having the highest value (Rs.11.34 billion) and Bank of Islami having the lowest value. Islamic bank assets are valued at Rs. 29.30 million on average with MCB Islamic holding the largest amount (Rs. 12.69 billion) and NRSP Islamic holding the smallest amount (Rs. 64.42 million).

In accordance with the aforementioned data, Meezan Bank, which has the largest SSP size and compensation as well as the largest SSP size, has the highest zakat reserves distributed by banks even if the SSP compensation esteem is the lowest. Meezan Bank has the highest net benefit and resource values. In the interim, NRSP Bank, which has the smallest POB and SSP sizes, is the bank that distributes the smallest amount of zakat reserves.

As compared to two years before COVID-19, Islamic banks in Pakistan disseminated more zakat funds. This is current information. The amount of Islamic bank zakat subsidies in Pakistan at the end of 2018 was Rs. 78.23 million, and at the end of 2019, it was Rs. 82.85 million. COVID-19 was declared by the World Health Organisation (WHO) on November 11, 2019. During the epidemic, zakat reserves increased to Rs. 118.70 million by 2021, and by 2021, they had reached Rs. 142.48 million. Zakat assets increased by 72% from 2019 to 2021. This data demonstrates that during COVID-19, Islamic banks in Pakistan had a comparatively high positive performance rate.

The cross-fragment Chi-square for the Chow test was 7.08888, with a likelihood of $0.000 < 0.05$. Since all of the test models had F-estimation probabilities beneath alpha 0.05, the Appropriate Impact model was used. Whether or not to utilize FE or RE in such a circumstance was not completely resolved by distinguishing the RE model from the FE model. This was done by utilizing the Hausman test. Since the Chi-squared scattering was 10.00000 and the Chi-squared likelihood was 0.000, which was less extreme than alpha 0.05 ($0.000 < 0.05$), the Legitimate Impact model was the most suitable. The Right Impact model was generally adequate considering the Chow Test and Hausman Test, limiting the requirement for the Lagrange Multiplier Test. Research was conducted into the Right Impact model as a result of the board data backslide idea.

Table 4.2: Analysis of Descriptive

Variables	Zakat Reserve	BOD Size	Com-POB	SSP Size	Com-SSB	Bank Size	B-Profit
Mean	10.00	7.088	11.02	7.08-b	5.268	1.79	2.93
Median	9.70	12.49	12.00	6.06-b	2.35-b	7.36	1.68
Maximum	6.61	7.00	4.31	11.34-b	1.0000	1.43	1.27
Std. Devi	2.28	1.131	9.82	0.4826	0.2379	2.73	2.98
Observations	75	75	75	75	75	75	75

Source: Proceed Data

In view of the Chow and Hausman tests, it was concluded that the Right Impact model was the Best Model. The control variable, along with the independent components POB, POB Compensation, SSP Size, and SSP Shari'ah, explained the dependent variable, namely Zakat reserves, by 85.50%, as shown in Table 3. The improved R-square or assurance coefficient, was 0.8548. Several non-model factors explain the remaining 15.60%. The F-measurement checks Fit model reliability. The results of the relapse evaluation may be used to justify testing the hypothesis since the model is fit. The data described above, which demonstrate that the F-measurement is 30.242 with an F-measurement probability of 0.0005, support this.

5.1 H1: Finding of Testing Hypotheses

The results of the t-test (Table 3) showed that the variable POB size had a coefficient of 3.7071 and a likelihood of 0.0001 (<0.05). This suggests that POB affects Zakat holdings. **H1 was supported.** No past experiments have shown trial proof of the capability POB size plays in expanding zakat holds, according to the author knowledge. This study strengthens previous findings regarding POB size convenience in further developing execution.

The studies by Albassam *et al.* (2017); Hakimi *et al.* (2016); Nawaz (2019); Amine (2018); Ulussever (2018), and Darwanto *et al.* (2019) reveal that the POB size affects financial performance. According to findings from a previous analysis, purposeful disclosure of corporate administration information was significantly affected by the size of the POB (Albassam *et al.* 2017). Based on the office idea, the POB could protect financial backer interests and assist leaders in achieving monetary and social goals. While zakat holds do not directly influence economic performance, they can significantly impact other positive results.

POB is considering working with the Zakat Edhi Foundation in several ways. They have social initiatives, and banks might decide which Zakat projects should get Zakat assets. The more significant the amount of Zakat Edhi Foundation that collaborates, the more notable the amount of Outsider Assets. The financial performance of Islamic banks is also affected by this. The more significant POB participation, the greater the opportunity to use zakat reserves. This leads to improved interpersonal and financial performance. The POB oversees social responsibility initiatives, including deciding how much zakat reserves to have and how to use them.

Zakat institutions and Islamic banks can help social programs succeed when they collaborate. POB says Islamic banks can work with Zakat institutions to enhance local communities, particularly those in need. This pertains to the

economy, health, environment, education, da'wah, emergency and humanitarian programs. Zakat reserves, for instance, might be given to educational institutions, particularly talented/smart kids from low-income families. Using this collaborative energy, social and financial goals may be accomplished while also enhancing customer connections with the Islamic bank.

Notwithstanding the way that this study showed the feasibility of the POB size on a reliable basis (zakat resources), there are still discoveries from prior examinations that provide different revelations about the chance of a colossal POB size. According to [Farag et al. \(2018\)](#); [Elgadi et al. \(2021\)](#), an enhanced POB will significantly affect bank monetary displays. According to the board's financial results, [Iqbal et al. \(2022\)](#) found no proof that the POB size may mitigate negative administrative behavior. In order to compare the enormous SSP size to other Islamic bank performance methods, further study is required.

5.2 H2: Finding of Testing Hypothesis

The t-tests (Table 3) showed that the variable compensating for POB had a coefficient of 2.8090 and a probability of 0.0012 (0.05). This implies that **H2: was supported** and that POB compensation had a major influence on Zakat reserves. The researcher is unaware of any previous study showing how POB compensation affects Zakat reserves expansion. This is in contrast to studies that looked at how an SSP's size impacted zakat reserves. This study adds to previous research findings on the POB's success in raising performance.

Research findings showing that POB compensation influences financial performance were made by [Pangestu et al. \(2019\)](#); [Amine \(2018\)](#). This result of this study is consistent with their findings. POB compensation is taken less seriously than POB size compensation. The improvement of financial performance is often at the center of previous research on the effect of compensation of POB. This is true even though earlier research looked at how the size of POB impacted performance measures.

Using the organizational stakeholder concept, compensation induces the POB to take a risk on executive viability by being on the side of reason. The POB handles both the financial budget and the zakat finances. These funds are funded by donations from clients, workers, and companies. It also manages social program expenses. It will attempt to accomplish the specified objectives while taking risks into consideration to ensure commercial progress.

Based on the stakeholder concept, POB can satisfy their public concern by dividing zakat assets according to partners' assumptions. This is particularly

those related to zakat reserves, by simply disclosing compensation data. The bank's charitable programs will be more effective with zakat organizations that focus on executives. It is possible to include social activity in combination with zakat establishment in banks' annual reports. The more social activities are included in the annual report, the more social activities there are, and the more partners trust Islamic banks.

As indicated above, the organization's financial health is tied to prior studies of POB compensation sustainability. As a result, observational research is necessary to determine how POB compensation can be used to achieve other performance criteria. These criteria include transparency, decreasing profits, and increasing social performance. Only a few observational studies have shown this connection, and thus further research is required to identify how POB compensation impacts performance (Kutum, 2015; Ogbeide *et al.* 2006).

H3: Finding of Testing Hypothesis

Findings of the test (Table) showed that varying Shari'ah punitive (SSP) had a coefficient of 3.4353 and a probability of 0.0021 (0.05). Zakat reserves are impacted by SSP size. **H3 was supported** in this way. The findings of this analysis support those of other studies (Almutairi *et al.*, 2017; Amine, 2018; Nomran *et al.*, 2018), which found that SSP size positively affects both social and financial success. When managing observation and suggestion tasks, larger SSPs are more efficient than smaller SSPs. Because of this, research suggests that a larger SSP should have better observation and advice capabilities.

This study contrasts the reviews by Nawaz (2019); and Quttainah *et al.* (2013), which claim that SSP size impacts performance. If the SSP assumes an indication function rather than an administrative one, it may provide information about Nawaz's (2019) research results. According to Farag *et al.* (2018), SSPs may have significant impacts on implementation when they perform administrative duties and serve as advisers. The study's conclusions support an increase in SSP given the likelihood of increased zakat assets.

As a result, a significant SSP can curb illegal transactions and operations, preserving the bank's integrity. In the interim, while choosing and allocating zakat reserves, the bank gives Shari'ah compliance top priority. To help Islamic banks adopt Shari'ah compliance, SSP members with an in-depth understanding of zakat Fiqh are asked for their opinions, particularly on any subjects where Islamic law is still ambiguous. According to Almutairi *et al.*'s (2020) research findings, following Islamic standards improves a bank's reputation among clients and raises its reliability. This will decrease Shari'ah breaches and improve Islamic banks' representation.

5.3 H4: Findings of Testing Hypothesis

The t-test findings (Table 3) showed that the variable SSP's standing had a coefficient of 0.0777 and a probability of 0.9211 (>0.05). Due to SSP's compensation not having a significant impact on Zakat's assets, H4 was not supported. Compensation for SSPs who were acknowledged as members of the Public Shari'ah Panel of the Pakistani Ulama Committee affected zakat reserves. This finding does not corroborate the exploratory results (Nugraheni, 2018). Nomran et al. (2018) found that SSP's compensation has a significant impact on Islamic banks' financial performance. Nugraheni (2018) says SSP's standing significantly influences social behavior. An Islamic bank's profitability, but not its social performance, can be managed by SSP employees in good standing under the agency concept. The aim of SSP employees is to assist POB in attracting investors and executing the financial plan. SSP employees may not feel able to follow Islamic values in that situation, particularly regarding zakat for directors.

The stakeholder concept asserts that SSP employees in good standing have scant knowledge of that area of Islamic law. They still have no power beyond suggesting to the POB which Islamic bank should manage zakat reserves. For instance, SSP employees at Meezan Bank and HBL Islamic participated in the Public Shari'ah Gathering of the Pakistani Ulama Committee. Since they were put in place, the bank has not conducted Zakat executive activities. SSP members should focus on developing their connections with other parties, especially the POB, parliamentarians, and the general public. The POB could show the SSP that paying zakat is one of the Islamic necessities. As a means of saving and improving their positive relationships with representatives and the public, Islamic banks demonstrate their social obligation to have a positive impact on the community.

Table 3: Fixed Effect Testing Findings

Variables	Coefficients	Error. Std.	Statistic t	Prob.
C	-4.90	1.41	-3.524	0.0000
POB Size	3.707	1.67	3.7071	0.0001
Compensation- POB	0.541	0.261	2.8090	0.0012
SSP Size	8.71	2.83	3.4353	0.0021
Compensation- SSP	-7.43	9.40	0.0077	0.9211
Bank Profit	-0.025	0.0043	-0.298	0.3321
Bank Size	0.021	0.0001	1.9254	0.0524
Adjust R-Squared	0.8548			
F- Statistic	30.242			
Prob. F Statistic	0.0000			

Source: Proceed Data

6. Conclusion and Future Research

The Panel of Board (POB) and Shari'ah Penal (SSP) have had a significant impact on the management and utilization of Zakat reserves in Islamic banks of Pakistan. The implementation of these two regulatory bodies has brought about various positive changes in the way Zakat reserves are handled and disbursed. Firstly, the establishment of the Panel of Board (POB) has ensured that the collection and distribution of Zakat reserves are carried out in a transparent and accountable manner. The POB comprises of knowledgeable and qualified individuals who are well-versed in Islamic finance principles. Their expertise ensures that Zakat funds are utilized in accordance with the guidelines set by Islamic law.

Furthermore, the Shari'ah Penal (SSP) has played a crucial role in ensuring the compliance of the principles of Shariah law by the Islamic banks. The SSP monitors the operations of Islamic banks including the management of Zakat reserves. This oversight helps to prevent any misuse or misappropriation of Zakat funds, ensuring that they are utilized for their intended purpose of helping the less fortunate. The impact of the POB and SSP on Zakat reserves in Islamic banks of Pakistan can be observed in various ways. Firstly, the implementation of these regulatory bodies has led to increased public trust in the management of Zakat funds. The transparent and accountable practices enforced by the POB and SSP have instilled confidence among the public that their Zakat contributions are being utilized effectively.

Islamic finance, governed by Shari'ah penal (SSP), differs from conventional banking in corporate management. The Penal of the Board (POB) manages the company, and Islamic banks must adapt their administrative duties to achieve financial and social objectives. A study examining Pakistani Islamic banks from 2017-2022 found that POB size, compensation, and SSP size affect zakat reserves due to board information relapse. Larger POB and SSP sizes can boost zakat reserves and social performance, contributing to societal responsibility and demonstrating compensation sufficiency.

Additionally, the presence of the POB and SSP has led to improved governance and risk management in Islamic banks. These regulatory bodies have established guidelines and standards that banks must adhere to in the management of Zakat reserves. This has resulted in better financial practices and reduced risk of mismanagement or fraudulent activities. In conclusion, the Panel of Board (POB) and Shari'ah Penal (SSP) have had a strong and positive impact on Zakat reserves in Islamic banks of Pakistan. The establishment of these regulatory bodies has ensured transparency, accountability, and compliance with Islamic finance principles in the management and utilization of Zakat funds. The presence of the POB and SSP has not only improved public trust but also enhanced governance and risk management practices in Islamic banks. Overall, the implementation of the POB and SSP has strengthened the role of Islamic banks in fulfilling their social and religious responsibilities towards the distribution of Zakat.

Future Research Could Explore the Following Areas

- 1) The impact of evolving Shari'ah interpretations on the management of Zakat reserves.
- 2) The role of technology in facilitating efficient allocation and utilization of Zakat reserves.
- 3) The effectiveness of educational programs in raising awareness about the importance of Zakat reserves among Islamic bank customers.
- 4) The potential for collaboration between Islamic banks and Zakat institutions to enhance the impact of Zakat reserves.
- 5) Future research is advised to overcome the limitations of this focus by adding more instances and estimation items.

The Panel of Board (POB) and Shari'ah Penal (SSP) are integral components of the Islamic banking system in Pakistan, guiding the management and utilization of Zakat reserves. Future research in this area will contribute to a deeper understanding of the impact of POB decisions and SSP compliance on the growth and stability of Zakat reserves. By addressing the challenges and opportunities in this field, Islamic banks can enhance their contribution to the socio-economic development of Pakistan while upholding Islamic principles.

In conclusion, the Panel of Board (POB) and Shari'ah Penal (SSP) play a vital role in regulating Zakat reserves in Islamic banks of Pakistan. Through their guidance, oversight, and enforcement, these regulatory bodies contribute towards the development of the relevant field of Islamic banking by promoting transparency, accountability and ethical practices. The findings of this research will provide valuable insights into the impact of the POB and SSP on Zakat reserves, thereby assisting policymakers and stakeholders in enhancing the effectiveness of Islamic banking in Pakistan.

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