

# How diverse are Shariah supervisory boards of Islamic banks? A global empirical survey

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Shariah  
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## Abstract

**Purpose** – This study aims to examine diversity in the composition of Shariah supervisory boards (SSBs) of Islamic banks (IBs). It investigates diversity from two perspectives: existing composition of SSBs and the regulatory frameworks and standards of selected Organisation of Islamic Cooperation countries. Diversity characteristics include education, nationality, gender and age.

**Design/methodology/approach** – A list of all full-fledged Islamic commercial banks (FFICBs) globally has been carefully prepared and confirmed. Conventional banks with Islamic windows, non-commercial banks, takaful companies and other Islamic financial institutions are excluded. The available profiles of 428 SSB members have been scrutinised and analysed. These board members occupy 522 SSB positions in 238 FFICBs operating in 52 countries around the globe. From the regulatory perspective, 12 national and international Shariah governance frameworks and standards have been examined.

**Findings** – Findings of this paper indicate various levels of diversity in SSBs of the reviewed IBs. The level of diversity in educational background and in the nationality of SSBs can be described as generally acceptable. However, a lack of diversity in gender and age among SSB members is evidently observed in IBs. While the lack of age diversity in SSBs may be relatively justified as a common trend in the composition of corporate boards, SSBs of IBs are seriously lagging behind in gender diversity. On the regulatory level, this study concluded that provisions on diversity as a requirement in SSBs are almost non-existent in the existing regulatory frameworks and standards.

**Research limitations/implications** – The major limitation of this study is the lack of available information on the SSB members.

**Practical implications** – This paper provides insights for IBs and policymakers concerned with the corporate governance of IBs and all Islamic financial institutions. First, it offers an excellent bird's-eye view of the status of diversity in SSBs of IBs. Second, it motivates policymakers and standard-setting bodies to ensure, through the relevant regulatory frameworks, adequate levels of diversity in the composition of SSBs. Diversity in SSBs of IBs and Islamic financial institutions should be given special emphasis, not only in boards and top management positions but also in the workplace. This is of profound significance to the reputation of Islamic finance industry which has been recently under mounting pressure to translate the rhetoric about the Islamic finance industry being ethical, fair, just, equitable and inclusive into genuine implementations.

**Originality/value** – To the best of the authors' knowledge, this study is the first of its kind to examine the diversity of SSB members from the regulatory as well as from the implementation perspective.

**Keywords** Corporate governance, Islamic banks, Shariah board diversity, Shariah governance

**Paper type** Research paper



## 1. Introduction

Since the Global Financial Crisis (GFC) in 2008–2009, corporate governance has been the focus of many studies conducted on business failures, particularly in financial institutions (Kirkpatrick, 2009; Macey and O'Hara, 2016; Sallehuddin *et al.*, 2019; Samra, 2016). The

report prepared by the High-Level Group on Financial Supervision for the European Union in 2009 also confirms that failures in corporate governance played a significant role in the GFC (De Larosiere, 2009). Thus, numerous studies have examined corporate governance and board diversity to explore the driving forces behind those detrimental events (Mateos de Cabo *et al.*, 2009; Selma *et al.*, 2020).

Corporate board is the key component in implementing corporate governance. Among other roles, boards are responsible for making strategic decisions (Ferreira, 2011). They play an intermediating role among shareholders, stakeholders and managers to solve agency problems (Fama and Jensen, 1983). The performance of corporate board, however, depends on several factors, including independence, size and diversity (Martín and Herrero, 2018). Among these, board diversity has been recently promoted as one of the effective ways of enhancing corporate performance (ACCA, 2020; Landaw, 2020). Regulatory authorities have also taken measures to promote board diversity. In some countries, they have implemented policies for gender diversity, while in others, the best practices for diversity include race, ethnicity, age and professional skills, beside gender diversity (Farient Adivors, 2018).

The global Islamic finance industry has rapidly developed over the past decades, reaching a total asset size of US\$3tn by 2018. It comprises 1,389 full-fledged Islamic financial institutions (IFIs) and Islamic windows. Islamic banking accounted for 71% of the industry's total assets with a cumulative average growth rate of 5% (Thomson Reuters, 2018). An increasing number of Islamic banks (IBs) have been established in Muslim and non-Muslim countries, while several conventional banks have started to provide Shariah-compliant products and services to their customers. Thus, IFIs have gained international acceptance and become strong competitors of commercial banks. This rapid growth in Islamic finance and the emergence of standards to guide IBs have also increased interest in the identification of factors that can improve corporate governance in these institutions.

Although IFIs are required to meet international corporate governance rules, they also have to adhere to additional requirements imposed by their nature, i.e. being Shariah-compliant institutions (Muneeza and Hassan, 2014). In other words, IFIs implement a dual governance structure (Farak *et al.*, 2018). This two-board system plays a vital role in the corporate governance of IFIs. Shariah supervisory board (SSB) plays a significant role in ensuring Shariah compliance in the products, services and operations of an IFI (Hasan, 2010). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines an SSB as “an independent body specialised in Islamic commercial jurisprudence” (AAOIFI, 2010). In practice, many IFIs establish their own Shariah board and even set up an internal Shariah review department to support Shariah board in performing its functions.

In recent years, many studies have been held on corporate governance of IFIs (Abd Razak, 2018; Agung *et al.*, 2020; among others). They have investigated board attributes of IFIs including board size (Najwa *et al.*, 2019; Shittu *et al.*, 2016), board composition (Bukair and Abdul Rahman, 2015), gender diversity (Ahmed, 2020), board duality (Hakimi, 2018) and board independence (Muhamad *et al.*, 2019). Likewise, studies on SSBs have focused on the relationship between SSBs and various dimensions of IFIs, including but not limited to:

- financial performance (Alsartawi, 2019; Baklouti, 2020; Nomran *et al.*, 2018);
- risk-taking (AlAbbad, *et al.*, 2019; Alaman, 2012);
- equity financing (Meslier *et al.*, 2020);
- Shariah governance disclosure (Noordin and Kassim, 2019);
- Shariah compliance (Dahlifah and Sunarsih, 2019);

- Islamic social reporting (ISR) (Meutia *et al.*, 2019; Nugraheni, 2018);
- bank efficiency (Saeed and Saeed, 2018); and
- financial soundness (Khalil and Taktak, 2020).

Different attributes of diversity have also been explored among board characteristics of IFIs including educational background (Nomran *et al.*, 2018), nationality (AlAbbad *et al.*, 2019; Khalil and Taktak, 2020) and gender (Baklouti, 2020).

This study argues that full-fledged Islamic commercial banks (FFICBs) should focus more on empowering the role of diversity on SSBs to improve corporate performance. This argument has both theoretical and practical aspects. From the theoretical dimension, boosting diversity in SSBs of FFICBs is in line with the spirit of Islamic financial system. The inclusion of diverse backgrounds in terms of gender, education, experience, expertise, reputation, cross-membership are expected to improve the credibility of IBs as being ethical and value-based institutions and enhance their image and reputation on the eyes of customers and other stakeholders. The characteristics of SSB members may also influence how effectively SSB conducts its tasks (Rahman and Bukair, 2013). On this respect, stewardship theory and resource dependence theory can be extended to explain the expected impact of SSB characteristics on the performance of IBs. Stewardship theory argues that board members are motivated to accomplish the tasks and responsibilities with which they have been entrusted, while resource dependence theory assumes that board members provide essential resources, i.e. knowledge, networking, legitimacy, to companies (Hillman and Dalziel, 2003). From the practical dimension, IBs should embrace diversity in their SSB to take the advantage of knowledge and experience-based resources that would be generated by SSB members with diverse professional and educational backgrounds, to empower decision-making process in meeting business goals, and ethical codes of IBs, and to further promote the legitimacy and reputation of IBs in the global financial system.

Building on these arguments, the present study attempts to investigate two key research questions:

- RQ1.* What is the status of diversity in the composition of SSB of FFICMs in the existing regulatory framework?
- RQ2.* In which areas should FFICBs improve the diversity of SSB to increase their competitiveness?

On this respect, this paper extends the literature on SSB diversity in IBs and contributes in three-fold. Firstly, it is the most comprehensive study covering SSBs of 238 FFICBs from 52 countries. Secondly, it investigates distinct characteristics of 428 SSB members, including multiple memberships, educational background, nationality, gender and age. Thus, it provides valuable insights for Islamic banking professionals in evaluating the divergent practices related to Shariah board diversity in FFICBs. Finally, this study encourages standard-setting bodies to implement more serious approaches on enhancing board diversity attributes to ensure a sustainable Shariah governance framework in the Islamic finance industry.

The remainder of the study is organized as follows: Section 2 reviews the literature. Section 3 highlights corporate governance and board diversity in IBs. Section 4 provides the data and methodology, followed by the empirical results in Section 5. The last sections discuss the implications of the findings and concludes.

## 2. Literature review

This section explores the literature on three key topics, namely, board diversity, corporate governance in IBs and diversity in SSBs.

### 2.1 Board diversity

Board diversity refers to board composition and board members' attributes (Ingley and Van der Walt, 2003). Most of the studies and regulatory actions on board diversity focus mainly on gender and ethnic diversity (Goyal *et al.*, 2019). Other dimensions of board diversity including demographics, nationality, age, educational and occupational background and independent memberships are also covered by other studies (Ararat *et al.*, 2015; Kang *et al.*, 2007).

The results of the impact of board diversity on bank performance are mixed (Rhode and Packel, 2014). Some studies have shown that board diversity plays a vital role in corporate governance and enhances firm performance (Berger and Neugart, 2012; Carter *et al.*, 2010; Goyal *et al.*, 2019; Meca *et al.*, 2015), while some other studies have argued that board diversity may slow down decision-making process, decrease cohesion and create "cognitive conflict" (Landaw, 2020). Thus, it is a "double-edged sword" (Milliken and Martins, 1996).

### 2.2 Corporate governance in Islamic banks

Corporate governance in IBs is unique due to the nature of Islamic finance, which distinguishes IBs from conventional banks. This peculiarity poses additional challenges for IBs in corporate governance including internal control, risk management, transparency, Shariah approval, external audit and prudential supervision (Hussein, 2014). Moreover, the modes of business contracts are quite important in IBs (Safieddine, 2009). For instance, in the *mudarabah* contract (profit-sharing partnership), IB managers act as an agent for the shareholders as well as a *mudarib* for the investment account holders (IAHs). This situation increases the possibility of conflict of interest for IB managers in reaching a trade-off between the interests of shareholders and IAHs (Archer *et al.*, 1998).

The agency problem is more relevant to the SSB. SSB members are usually appointed by bank management and receive their remuneration from IBs. Since SSB is supposed to act as the primary body for ensuring Shariah compliance of products and services as well as an agent of IAHs, their roles may be subject to the potential conflict of interest (Garas, 2010). Farag *et al.* (2018) investigated the unique agency relationships in a sample of 90 IBs operating in thirteen countries over the period of 2006–2014 and found that a larger SSB size may result in lower agency costs in IBs. They also identified that the greater the volume of the unrestricted contracts the higher the agency costs. This implies that *mudarabah* contracts are one of the main sources of agency conflicts in IBs. Another factor that differentiates corporate governance for IBs is Islamic Law (Shariah). It requires IBs to implement additional controls to ensure that their activities comply with Shariah principles. Obviously, shaky Shariah-compliance controls may result in different risks, the most important one being reputational risk (Grassa, 2015). Thus, IBs must implement a dual model of corporate governance that adheres not only to international standards and local regulations but also to the principles of Shariah law to build the confidence of stakeholders and contribute to the financial stability of IBs (Archer *et al.*, 1998; Haridan *et al.*, 2018; Ismail *et al.*, 2016; Mollah and Zaman, 2015). Table 1 shows an overview of how Shariah governance complements typical governance.

The main responsibilities of a SSB are to verify and issue a report confirming that instruments, documentation and product structures comply with the Islamic principles (Grais and Pellegrini, 2006; Suleiman, 2000). There are mainly two non-governmental organizations that contribute to the standardization of SSBs in IBs: the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) domiciled in Bahrain and the Islamic Financial Services Board (IFSB) domiciled in Malaysia. They have developed principles to support accounting standards, supervision and risk management of IBs. IFSB Guiding

Principles on Shariah Governance (IFSB, 2010) defines Shariah governance as the set of institutional arrangements by which an institution offering Islamic financial services (IIFS) ensures that there is independent oversight of Shariah compliance regarding the essential structures and processes in the IIFS.

According to the AAOIFI Governance Standard No. 1, the SSB should be an independent body of legal scholars specialized in *fiqh al-mua'malat* (Islamic commercial jurisprudence). The principle also states that:

“Every Islamic financial institution shall have an SSB to be appointed by the shareholders in their annual general meeting upon the recommendation of the board of directors and it shall consist of at least three members. The SSB may seek the service of consultants who have expertise in business, economics, law, accounting and/or others” (AAOIFI, 2010).

In Governance Standard No. 8, AAOIFI highlights four types of Shariah boards, namely, Central Shariah Board (CSB), SSB, National Shariah Board (NSB) and Regulatory Shariah Board (RSB). The standard defines the CSB as:

“A broad-level board or similar body of specialized jurists in Fiqh al-Muamalat and experts in Islamic banking, finance, law and accounting providing guidance and advice on Shariah matters, with limited supervision, that is established in a specific country or jurisdiction for providing uniformity and harmony in the products and practices with regard to Islamic finance through Fatwa, rulings and principles applicable on a broad base rather than a single institution” (AAOIFI, 2017, p. 6).

Then, the standard proclaims that the CSB could be one of two types: NSB or RSB. An NSB is formed at the national level by a government authority having multiple regulatory responsibilities under its ambit, while an RSB is formed by a regulatory or self-regulatory body for a jurisdiction having one or more industry segments under its ambit as defined by the regulator.

Shariah supervision is the main pillar of Shariah governance system in IBs (Grassa, 2013). It is executed by the Shariah committee that works as an independent body composed of jurists specialised in *fiqh al-mu'amalat* (AAOIFI, 2010). They provide assurance on the legitimacy of products and services and their compliance with Shariah law (Ullah *et al.*, 2018). They also issue an annual Shariah compliance report (Albarrak and El-Halaby, 2019; Maali *et al.*, 2006). Across IBs, Shariah boards implement either a centralised or decentralised model. Malaysia represents the former. There is a dual system with two Shariah committees on the national level, organised by the central bank and Securities Commission, respectively, and each institution has its own SSB. The decentralised model is the case in most of the Gulf Cooperation Council (GCC) countries, where Shariah boards are established by each IB independently

Functions	Financial institutions	Additions in the IIFS
Governance Control	Board of directors Internal auditor External auditor	Shariah board Internal Shariah review/audit unit/department (ISRU) External Shariah review
Compliance	Regulatory and financial compliance officers, unit or department	Internal Shariah compliance unit/ department (ISCU)

**Table 1.**  
Overview of Shariah  
governance role in  
typical corporate  
governance

**Source:** Islamic Financial Services Board, Guiding Principles on Shariah Governance (IFSB 10)

(Alman, 2012; Hamza, 2013). Mash'al (2008) claimed that four types of Shariah supervisory systems are implemented across different jurisdictions:

- (1) Central (National) Shariah Board without institutional Shariah committees (in Iran).
- (2) CSB along with institutional Shariah committees (in Malaysia and Sudan).
- (3) Institutional Shariah committees without a Central Shariah Committee (in Saudi Arabia).
- (4) Institutional Shariah committees with minimal supervision by the Ministry of Awqaf and Islamic Affairs (in Kuwait).

Grassa (2015) explored the Shariah governance regulatory frameworks for IFIs across the countries of the Organisation of Islamic Cooperation (OIC) and found that only 13 of the 25 OIC countries have a national Shariah authority. Moreover, the appointment and affiliation of these NSBs differ from one jurisdiction to another as illustrated in Table 2. Among these 13 countries, at least four of them are affiliated with the Ministry of Awqaf. This may reflect low-level commitment by those governments to Shariah governance of the IFIs in their jurisdictions.

2.3 Diversity in the Shariah supervisory boards of Islamic banks

Over the past few years, an increasing number of studies has investigated the impact of SSB diversity on different aspects of IBs, arguing that the diversity factors that may affect board

Country	National Shariah board	Affiliation
Bahrain	National Shariah Advisory Board	n.a
UAE	Higher Shariah Authority	Ministry of Justice and Islamic Affairs
Kuwait	Fatwa Board in the Ministry of Awqaf and Islamic Affairs	Ministry of Awqaf and Islamic Affairs
Jordan	Fatwa Board in the Ministry of Awqaf Islamic Affairs and Holy Places	Ministry of Awqaf, Islamic Affairs and Holy Places
Palestine	Supreme Shariah Supervisory Board	Palestine Monetary Authority Board
Pakistan	Shariah Board	State Bank of Pakistan
Iran	Council of Guardian	n.a
Nigeria	CBN Shariah Council (CSC)	Central Bank of Nigeria
Sudan	Higher Shariah Supervisory Board	President of the Republic, on the advice of the Minister of Finance
Malaysia	Shariah Advisory Council	The Yang di-Pertuan Agong, on the advice of the Minister
Indonesia	National Shariah Board	Appointment by Ministry of Religious Affairs
Brunei	Shariah Financial Supervisory Board	The Sultan and Yang Di-Pertuan
Bangladesh	Central Shariah Board for Islamic Banking	n.a

**Table 2.** Appointment and affiliation of the National Shariah Boards in the OIC countries

Source: Grassa (2015)



of directors may also influence SSB as the roles of board of directors and SSB in IBs are similar (Rahman and Bukair, 2013). The diversity concept in these studies includes cross-membership of SSB members on multi SSBs, SSB size, educational qualification, independence, SSB frequency of meetings, SSB members' competence and reputation, nationality and gender diversity (Matoussi and Grassa, 2012; Mollah and Zaman, 2015; Nomran *et al.*, 2018; among others). The reports launched by Fund @ Work (2010, 2011) are among the most important studies investigating SSBs and governance in IFIs. They examined the multiple memberships in IFIs covering 280 Shariah scholars who occupy 1,141 board positions in over 370 IFIs in 28 countries. The results revealed that the top 20 Shariah scholars occupy 621 board memberships while the remaining 260 scholars hold 520 board positions. Furthermore, the top 10 scholars hold 450 out of 1,141 positions. However, the report did not explore the diversity of SSB members.

Farag *et al.* (2018) investigated the dual board structure and its impact on the financial performance of IBs for a sample of 90 IBs in 13 countries for the years 2006–2014 and found that SSB size positively affected financial performance. Similar studies also reported the same results (AlAbbad *et al.*, 2019; Baklouti, 2020; Nomran *et al.*, 2018; Saeed and Saeed, 2018). Mollah and Zaman (2015) identified a positive impact of SSBs on the performance of the IBs when the SSB has a supervisory role, but the impact is insignificant when the SSB undertakes only an advisory role. However, Alsartawi (2019) found a significant and negative relationship between the SSB composition and the IBs performance for a sample of 48 IBs in the GCC countries for the years 2013–2017. Alman (2012) analysed the effect of SSBs on risk-taking behaviour of 82 IBs across 13 countries over the period of 2000–2010 and found that risk-taking is positively influenced by the increasing size of the SSB and the presence of top-ranked Shariah scholars with multiple memberships. Noordin and Kassim (2019) investigated the relationship between the SSB composition and the extent of Shariah governance disclosure in 16 Malaysian IBs and suggested that the IBs should improve the SSB composition to enhance Shariah governance. Ahmed *et al.* (2019) investigated the relationship between sukuk characteristics and sukuk legitimacy and examined the moderating effect of SSB on this relationship. Their finding provided strong evidence for the moderating role of SSB on the relationship. Likewise, Ahmed *et al.* (2018) found a moderating effect of SSB on Shariah documentation in relation to sukuk legitimacy. Table 3 provides a snapshot of the recent studies held on board diversity in SSBs. SSB educational diversity is the most frequently studied topic in the literature, followed by the SSB members' nationality and experience. Age diversity has not been explored. There are two studies on gender diversity but not in SSBs (Ahmed, 2020; Khan *et al.*, 2020). Extending the coverage of prior studies, this study explores available profiles of Shariah scholars by examining five facets of SSB diversity, namely, education, multiple memberships, nationality, age and gender to give a comprehensive picture.

The present study has additionally reviewed the regulatory framework in different OIC countries and has examined 13 Shariah governance structures to check for the provisions on diversity in SSBs. The findings indicate that SSB diversity has been neglected in many jurisdictions, except by AAOIFI (see Table 4). AAOIFI, in its exposure draft of Governance Standard No. 8 on CSBs, states that the Shariah board should be diversified and shall comprise Shariah scholars and expert members. It also indicates the possibility of having international Shariah scholars “within or outside the country”. Further, the exposure draft recommends having experts in the Shariah board from areas other than Shariah, e.g. accounting, finance, law and economics, “provided that such experts must have considerable level of understanding of the functions of Islamic banking and finance by virtue of relevant education, research or practical experience”. AAOIFI also clearly allocates

a specific section to diversity in the Shariah board, emphasizing the following key diversity attributes:

- representation from the country/jurisdiction and globally acclaimed scholars/experts;
- representation of different schools of thought among Shariah scholars in the country/jurisdiction;
- representation of different fields of expertise and strengths among the members; and
- no discrimination against potential female members (Governance Standard No: 8) [1].

### 3. Data and methodology

To address the research questions, we collected data only from the full-fledged commercial Islamic banks (FFICBs) to maintain uniformity. FFICBs include IBs and their international subsidiaries operating according to the principles of Shariah law. Thus, conventional banks with Shariah windows such as HSBC Amanah in Malaysia, Meethaq and Maisarak in Oman and many others are excluded from the analysis. Likewise, Islamic subsidiaries of conventional banks are also excluded from the sample, for example, CIMB Islamic and Maybank Islamic in Malaysia and others. We also did not cover IFIs other than commercial IBs, e.g. financing houses, credit institutions, takaful companies and investment companies.

We believe that an accurate list of FFICBs is essential to provide a clear picture of the Islamic banking industry. This list is currently not available due to the mixed structure of IBs. According to “Islamic Finance Outlook” issued by Thomson Reuters in 2018, the number of Shariah scholars in the Islamic finance industry is estimated to be 1,162, and it is quite difficult to collect data for them. Therefore, we focus only on SSB members of FFICBs.

We manually obtained the data about the Shariah scholars who are members of SSBs since the data are not fully and readily available on a single platform. We also confirmed the list of FFICBs from the regional and local experts by contacting at least two experts from each region, including Europe, North America, Southeast Asia, Africa and the GCC. We followed the same approach to collect information for board attributes, i.e. multi-memberships, nationality, experience, education, gender and age. We used the following sources to prepare the list of FFICBs and to collect data: national central banks, Orbis, Thomson Reuters EIKON database, Islamic Markets website, IFSB, professional reports on the Islamic finance industry, relevant academic publications, IBs’ websites and professional platforms (e.g. LinkedIn).

We confess that we faced difficulties in data collection. Firstly, many FFICBs do not mention the names of their SSB members on their website, not even in their annual reports. Secondly, IBs operating in different jurisdictions adopt different practices regarding Shariah boards and governance. Some countries, such as Iran and Morocco, appoint Shariah boards at the national level, while other jurisdictions have a dual Shariah board system, i.e. on the national level as well as on the bank level. The number of SSB members also varies according to the local regulations and governance framework. Finally, there is a scarcity of information on the profiles of many Shariah scholars in terms of nationality, education, age and experience.

### 4. Empirical results

#### 4.1 *The distribution of full-fledged Islamic commercial banks and Shariah scholars by country and region*

Table 5 shows the number of FFICBs in each country by region and the number of Shariah scholars that take part in the SSBs of these banks. There are 238 FFICBs from 52 countries. This includes full-fledged IBs and their international subsidiaries around the world.



Diversity in SSB	Study title	Author	Objective	Sample	Variables	Findings
Education	SSB and social performance of Indonesian IBs	Nugraheni (2018)	To examine the effect of SSB attributes on the social performance in IBs	Islamic banks in Indonesia for the year 2010–2014	SSB size, number of meetings, educational qualification, reputation, cross-membership	Size and reputation of SSB members have a significant effect on the social performance, while number of meetings, educational qualification and cross membership does not have any effect on the social performance
	Characteristics of SSB and its relevance to Islamic social reporting at IBs in Indonesia	Meutia <i>et al.</i> , 2019	To examine the effect of SSB size, number of meetings, education and duality in SSB on Islamic social reporting	13 IBs and 21 Sharia Business Units in the Financial Services Authority 2015–2017	Size of the SSB, number of meetings, education and duality in SSB	The number of SSB meetings, duality in SSB positions, SSB size and profitability significantly influence Islamic Social Reporting (ISR). SSB education has no significant effect on ISR
	Analysis of the effect of SSB function on earning quality of IBs	Hendra (2016)	To identify the effect of SSB on the earnings quality in Indonesian IBs	11 full-fledge IBs in Indonesia 2010–2015	Size, frequency of meeting educational background	The size of SSB members has a positive effect on the improvement of earning quality in IBs. The frequency of SSB meetings and educational background do not affect the earnings quality
	Does Shariah committee composition influence Shariah governance	Noordin and Kassim (2019)	To investigate the linkage between Shariah Committee composition and	Corporate data disclosed in the 2009–2013 annual reports 16 IBs in Malaysia	Size of SSB and diversity in members' knowledge background Shariah qualification	There is a significant association between composition of the Shariah Committee in the IBs and Shariah

(continued)

**Table 3.**  
Summary of the  
studies held on  
diversity in the SSB  
of Islamic banks

Table 3.

Diversity in SSB	Study title	Author	Objective	Sample	Variables	Findings
Nationality	disclosure? Evidence from Malaysian IBs		Shariah governance disclosure			governance disclosure before the introduction of Shariah Governance Framework (SGF). However, because of less variation in the composition of Shariah Committee after the introduction of SGF in 2010, a weak linkage was found between the composition of Shariah Committee and the extent of disclosure in 2013
	Can Shariah board characteristics influence risk-taking behaviour of IBs	<a href="#">AlAbbad et al. (2019)</a>	To examine whether the SSB in IBs influence risk-taking behaviours	70 IBs' annual reports across 18 countries from 2000 to 2011	SSB size and busy foreign members	The size of SSB and the proportion of busy board in SSB positively and significantly influence IBs' asset return and insolvency risks. Foreign members are more effective in monitoring banks' Shariah compliance
	The impact of the Shariah board's characteristics on the financial soundness of IBs	<a href="#">Khalil and Taktak (2020)</a>	To examine the relationship between corporate governance and financial soundness of IBs	67 IBs – covering 20 countries during 2005–2014	Size of SSB, foreign member, education background	The size of the SSB has a negative and significant impact on the financial soundness of IBs. However, the Shariah scholars with knowledge in finance/accounting, the presence of Mufti, the interlocked

(continued)

Diversity in SSB	Study title	Author	Objective	Sample	Variables	Findings
Experience	Bank performance and SSB attributes of IBs: Does bank size matter Shariah board composition and performance of IBs	Nomran <i>et al.</i> (2017)	To examine the impact of SSB characteristics on IBs performance	25 IBs in Malaysia and Indonesia from 2007 to 2015	Size, cross-membership, educational qualification and change in the composition	Shariah scholar and the foreign Shariah scholar do not have any significant impact on the financial soundness of Islamic banks Size, cross-membership, educational qualification and change in the composition significantly affect the performance of IBs. However, the findings vary for large versus small banks. Size, cross-membership, reputation and experience play a vital role in enhancing the performance of large IBs while only reputation and experience significantly affect the performance of small IBs

Source: Developed by authors

Shariah  
supervisory  
boards of  
Islamic banks

Table 3.

**Table 4.**  
Summary of the  
requirements for SSB  
diversity in different  
jurisdictions

Jurisdiction/ institution	Standard/ framework	Year of issuance	Key diversity indicators				Experience (academia or industry)	Reference/ paragraph
			Gender	Age	Nationality	Education (minimum)		
Malaysia	Shariah Governance	Sep 2019	X	X	X	Majority must be Shariah qualified	Experience of the relevant industry	12 and 13. p. 10 and 13
Pakistan	Shariah Governance Framework for IBs	Jun 2018	X	X	X	Bachelor degree ( <i>Dars e Nizami</i> ) or postgraduate in Kuliyyah of Shari'ah	Four years experiences in Shariah rulings or five years post qualification experience in teaching or R&D in Islamic Finance	Fit and proper criteria
Oman	Islamic Banking Regulatory Framework	2012	X	X	X	Shariah bachelor degree or experts in relevant field with master degree	10 years in teaching research, fatwa issuance or 15 years or more experience in relevant field	Fit and proper criteria p. 13
Bahrain	Sharia Governance Module	2017	X	X	X	Bachelor degree (or equivalent) in Sharia	Seven years in Shariah related scholarly pursuits (e.g. teaching, research, fatwa)	SSB competence/fit and proper criteria p. 17
Nigeria	Guidelines on Shariah Governance for IFIs	n.a	X	X	X	Academic qualification or knowledge or expertise in the Shariah fields	X	5.2 Qualification p. 3
IFSB	Principles on Shariah Governance for IFIs (IFSB 10)	2009	X	X	X	Bachelor's degree from a recognised university in the sciences of <i>Shariah</i>	Only a member of SSB who has at least three years' experience in Shariah resolutions or at least four years post qualification experience in teaching or research in Islamic finance should be appointed as Chairman of SSB	Minimum competence requirement for members of SSB

(continued)

Jurisdiction/ institution	Standard/ framework	Year of issuance	Key diversity indicators				Experience (academia or industry)	Reference/ paragraph
			Gender	Age	Nationality	Education (minimum)		
AAOIFI	AAOIFI Governance Standards No. 1 SSB	n.a	X	X	X	X	X	Composition selection and dismissal of SSB p. 886
	Governance Standard 8 Central Shariah Board	2017	✓**	X	✓	Shariah scholar members and expert members	Practical experience or academic experience in the relevant fields	Diversity 24. p.9
	National Shariah Governance Framework	n.a	X	X	X	X	X	Fit and proper criteria p. 13
	Shariah Governance Framework for banks in Saudi Arabia	February 2020	X	X	X	Framework does not specify a certain degree or certificate. SSB members must have Shariah and financial knowledge	At least five years of experience in Islamic finance, Shariah compliance and audit	Section IV: Competency 6.4.1 p. 25
Iraq	Parameters of Shariah Supervisory Committee and Internal Shariah Audit and Compliance in IBs	2018	X	X	X	Chairman must have at least master degree in Shariah sciences including jurisprudence of financial transactions. Board members must have a bachelor degree in Shariah field	Chairman must have at least three years of experience in fatwa issuance and scientific research in Islamic finance. No experience is required for board members	Chapter 4: “forming and appointing Shariah Committee and membership” Article 8 Shariah Supervisory Committee 1.5 Academic qualification p. 4 and 1.8 Composition p. 6
		2016	X	X	X			
Jordan								

(continued)

## Shariah supervisory boards of Islamic banks

Table 4.

Jurisdiction/ institution	Standard/ framework	Year of issuance	Gender	Age	Nationality	Key diversity indicators	Experience (academia or industry)	Reference/ paragraph
	Guidelines on Corporate Governance of the IBs					Members must have at least a bachelor degree in Shariah sciences, economics or finance	All members must have at least three years of experience in issuing fatwa and Shariah rulings and/or four years of experience in teaching or scientific research	Article 15: fit and proper of board members in SSB, p. 22
Kuwait	Guidelines on Shariah Supervisory Governance in Kuwait for IBs	2016	X	X	X	Members must have bachelor degree in Shariah, General knowledge and understanding of finance and economics	Five years of Shariah supervision as a minimum and proper requirement of experience	Chapter 3 fit and proper criteria pp. 23-24

**Note:** \*\*provision on gender diversity has been removed from the final GS 8

**Source:** Developed by authors



				Shariah supervisory boards of Islamic banks
Region	Country	No. of banks	No. of scholars	
Middle East and North Africa	Algeria	2	5	<hr/>
	Bahrain	11	43	
	Djibouti	3	6	
	Egypt	3	14	
	Iran	29	n.a	
	Iraq	30	30	
	Jordan	4	13	
	Kuwait	5	21	
	Lebanon	3	17	
	Libya	1	4	
	Morocco	5	n.a	
	Oman	3	6	
	Saudi Arabia	7	31	
	Qatar	8	23	
	Syria	3	9	
	Tunisia	2	6	
	United Arab Emirates	8	29	
	Palestine	5	5	
	Yemen	4	10	
<i>Total</i>	<i>19</i>	<i>136</i>	<i>252</i>	
Sub-Saharan Africa	Gambia	1	3	
	Guinea	1	3	
	Kenya	6	6	
	Mauritania	4	6	
	Mauritius	1	n.a	
	Nigeria	2	10	
	Senegal	1	3	
	Seychelles	1	n.a	
	Somalia	6	4	
	South Africa	2	8	
	Sudan	31	32	
	Tanzania	1	n.a	
	<i>12</i>	<i>53</i>	<i>75</i>	
East Asia and Pacific	Brunei Darussalam	1	6	
	Indonesia	1	2	
	Malaysia	9	45	
	Thailand	1	4	
	<i>4</i>	<i>12</i>	<i>57</i>	
<i>Total</i> Europe	Bosnia and Herzegovina	1	5	
	Germany	2	4	
	Greece	1	n.a	
	Turkey	4	12	
	UK	7	17	
	<i>5</i>	<i>15</i>	<i>38</i>	
<i>Total</i> Central Asia	Kazakhstan	1	3	
	Tajikistan	1	1	
	Turkmenistan	1	n.a	
	Uzbekistan	1	n.a	
				<i>(continued)</i>

**Table 5.**  
Number of FFCIBs  
and Shariah scholars  
in Shariah boards by  
region (2019)

Region	Country	No. of banks	No. of scholars
	Azerbaijan	1	n.a
Total	5	5	4
Latin America and The Caribbean	Suriname	n.a	1
Total	1	1	0
North America	USA	1	n.a
Total	1	1	1
South Asia	Afghanistan	1	2
	Bangladesh	8	71
	Maldives	1	3
	Pakistan	4	14
	Sri Lanka	1	5
Total	5	15	95
Total globally	52	238	522

Table 5.

As shown in Table 5, the Middle East and North Africa (MENA) region hosts the majority of the FFICBs (57%) with 136 IBs operating in 19 countries, followed by Africa (22%) with 53 IBs operating in 12 countries. Europe is ranked third with 15 IBs from five countries.

Our data included 428 Shariah scholars occupying 522 Shariah board positions in 238 FFICBs. According to the Islamic Finance Development Indicator (IFDI) Report released by the Islamic Corporation for the Development of the Private Sector (2020), the number of Shariah scholars has reached to 1,170 in IFIs. The figure shows a considerable increase, i.e. four times, since Funds @ Work report in 2010. Notably, despite the lack of information on the professional and personal profile of Shariah scholars, which is a major limitation of our study, we still managed to collect information on approximately 37% of Shariah scholars globally. Figure 1 shows the distribution of the Shariah scholars among the regions. The MENA region dominates with 252 Shariah scholars taking part in 136 banks, followed by South Asia and sub-Saharan Africa with 95 and 75 Shariah scholars, respectively. There is an average of roughly two members per Shariah board. This low membership rate is mainly due to two reasons; firstly, there are missing data on SSBs in many FFICBs. For instance, in

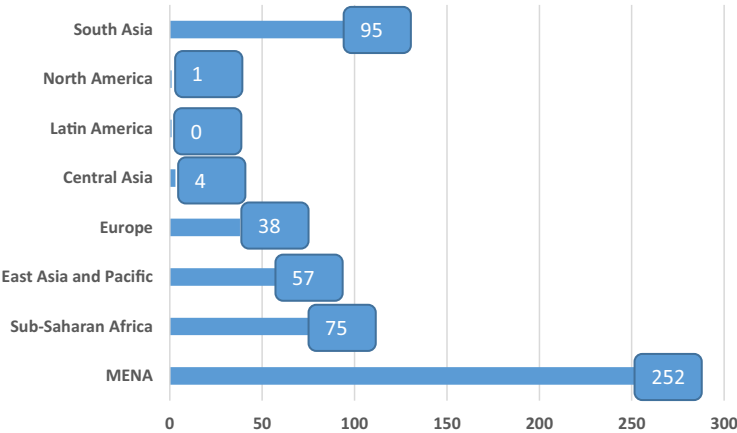


Figure 1.  
Distribution of  
Shariah scholars in  
FFCIBs by regions

Iraq, there are over 30 FFICBs, but data on SSB members are not available due to poor disclosure. Secondly, in some jurisdictions like Iran and Morocco IBs are not required to have an internal SSB. In these countries, a CSB appointed by the central bank supervises the activities of IBs. It is also worth noting that the number of SSB members varies from one jurisdiction to another. In some jurisdictions, the number is small, i.e. one or two members, as in Indonesia, whereas in some others, it is high, i.e. eight or nine, as in Bangladesh.

When we combine the number of FFICBs and Shariah scholars by region, we observe that the MENA region hosts 57% of the FFICBs, but 48% of the Shariah board positions. The opposite holds true for the South Asia and South-East Asia regions. About 11% of FFICBs operate in these regions, but they hold about 30% of Shariah scholar positions.

#### 4.2 Multiple memberships of Shariah scholars in the full-fledged Islamic commercial banks

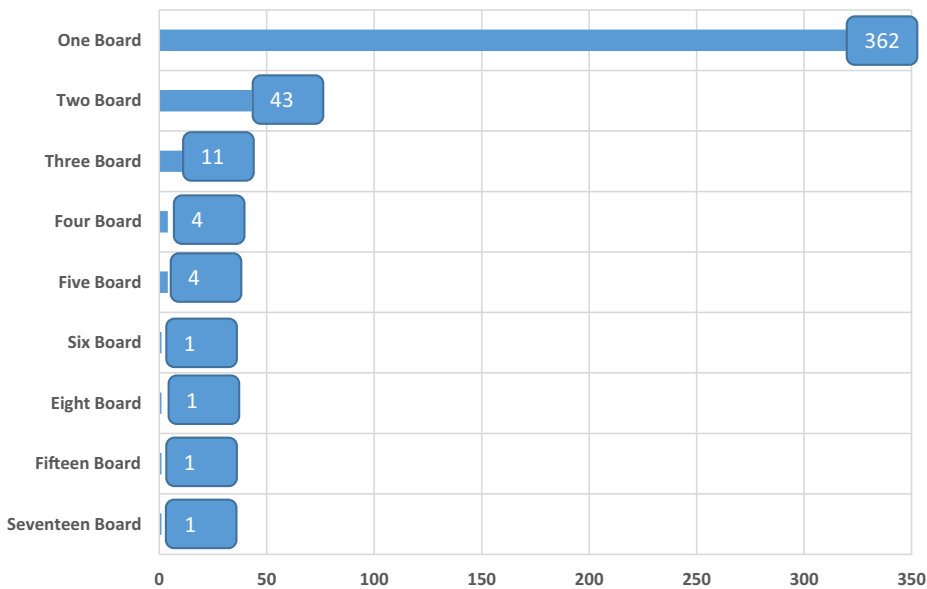
Multiple memberships occurs when any Shariah scholar is a full-time Shariah board member for more than one FFICB (Chou and Feng, 2019). This could be attributed to many reasons, but the most important one is the lack of qualified Shariah scholars for FFICBs (Abd Razak, 2019). It is a common belief that multiple memberships could bridge the management with the external market practices, particularly on the activities and policies of other IBs (Haniffa and Hudaib, 2006). Multiple memberships in various SSBs have attracted the attention of many researchers, finding mixed results. Nomran *et al.* (2018) reported that multiple memberships play an important role in enhancing the performance of large IBs in Malaysia and Indonesia but not the small ones. Meutia *et al.* (2019) found that multiple memberships significantly influence ISR in Indonesia. In contrast, other studies reported an insignificant relationship between SSB multiple memberships and social performance of IBs (Nugraheni, 2018), Shariah compliance disclosures (Dahlifah and Sunarsih, 2019) and financial soundness of IBs (Khalil and Taktak, 2020).

Multiple memberships in SSBs provide advantages to Shariah scholars, such as career advancement, social connections, access to sensitive information and reputational enhancement (Fich and Shivdasani, 2006; Nienhaus, 2007). It also helps IBs to strengthen their Shariah-compliance framework by getting feedback from business practices, market strategies, new products/services and Shariah opinions of other IBs (Connelly and Van Slyke, 2012; Harris and Shimizu, 2004). Top Shariah scholars on an SSB can also play a significant role in attracting potential customers (Berg *et al.*, 2016; Godlewski *et al.*, 2014).

Figure 2 shows the multiple memberships in the FFICBs. The total number of Shariah board positions are 522, occupied by 428 Shariah scholars, with an average of 1.34 board memberships. Out of the 428 Shariah scholars, 66 of them (17%) sit on more than one Shariah board. The vast majority of the Shariah scholars (362) sit on only one Shariah board, while there are 43 and 11 Shariah scholars sitting on two and three boards, respectively. The top 10 Shariah scholars occupy 74 Shariah board positions with an average occupancy rate of 7.4, while the top 20 scholars occupy 106 positions with an average occupancy rate of 5.3 memberships. Table 6 displays average memberships per IFI from some selected reports.

Table 6 indicates an increase in the number of Shariah scholars from 2010 to 2019. In 2010, the average membership per IFI was 0.75, while it was 1.5 in 2019. In the present study, the average membership is high because we cover only FFICBs. The intensity of multiple memberships in FFICBs has raised concerns among stakeholders and has pushed regulators for the implementation of policies to solve this issue. For instance, in Indonesia, local regulations restricted SSB membership to a maximum of four IFIs in 2009 (Meutia *et al.*, 2019). Similarly, in Malaysia, the latest Shariah governance framework in 2019 has taken a step by restricting the SSB membership to only one position in any segment of the Islamic finance industry.

**Figure 2.**  
Multiple  
directorships of  
Shariah scholars in  
the Shariah boards of  
the FFCIBs



**Table 6.**  
Multiple  
directorships in the  
IFIs

Description	Funds@ Work 2010	Islamic Commercial Law Report 2016	IFDI 2019	The present study
Number of IFIs	370	652	770	238
Number of Shariah scholars	280	952	1,166	428
Average membership per IFIs	0.75	1.46	1.51	1.79

4.3 Educational background

Qualified and well-educated board members are among the key factors of success in business (Kakabadse *et al.*, 2010). Board members who have high-level educational degrees are more likely to bring new ideas and flexibility to the decision-making (Wincent *et al.*, 2010). This competency issue in the Islamic finance industry usually arises due to the limited number of Shariah scholars with adequate knowledge on banking and finance. The majority of Shariah board members are qualified in Islamic jurisprudence rather than in other business fields, and they tend to lean on the simple rulings of earlier Islamic scholars (Iqbal and Molyneux, 2005). Most of them are graduates of Shariah institutions in which a command of foreign languages and banking experience is not required (Asaad, 2007). Thus, they have low-level impact on structuring new and innovative products (Iqbal and Mirakhor, 1999).

Most of the studies conducted on the impact of educational diversity of SSBs on the performance of IBs have failed to identify a significant relationship (Khalil and Taktak, 2020; Meutia *et al.*, 2019; Nugraheni, 2018). However, Nomran *et al.* (2018) explored the impact of SSB diversity on IB performance for a sample of 25 banks in Malaysia and Indonesia for the years 2007–2015 and found that educational qualification significantly affects the performance.

In the present study, we investigate the educational background of the SSB members in IBs by referring to their bachelor's, master's and PhD degrees. We captured a total of 719 observations on educational background. Approximately 44% of the data are missing on educational background of the 428 SSB members. As shown in Table 7, our findings indicate that 259 Shariah scholars hold BAs, 235 of them hold MAs and 225 of them hold PhDs. The results also show that two-thirds of the SSB members studied Shariah or Shariah-related fields, e.g. Islamic law, Quran, Sunnah and Usul al-Fiqh, while 19% of them have non-Shariah educational backgrounds in finance, accounting or economics. One-third of the Shariah board members in our sample have non-Shariah or mixed educational backgrounds. This is a positive sign for educational diversity of SSBs. This is also in line with the regulatory frameworks on educational requirements of SSB members in different jurisdictions, e.g. Pakistan, Oman, Bahrain, Nigeria and Malaysia.

#### 4.4 Nationality of Shariah board members

Nationality diversity refers to the existence of board members from different nationalities (Zaid *et al.*, 2020). The presence of multinational board members could improve decision-making process and may bring new opportunities to boards by their market engagement, professional background, life experiences and culture (Ruigrok *et al.*, 2007).

Speciality	Education degree		
	Bachelor	MA	PhD
# of observations	259	235	225
<i>Shariah fields</i>			
Islamic Law (Shariah)	107	50	60
Quran and Sunnah	3	4	0
Islamic Studies	23	66	44
Usul al-Fiqh	15	21	20
Others	6	20	27
Total	154	161	151
Total	466 (65%)		
<i>Non-Shariah fields</i>			
Finance	1	3	2
Commerce	4	0	0
Law	19	17	12
Economics	9	9	10
Accounting			1
Business Administration	6	5	1
Others	13	10	18
Total	52 (7%)	44 (6%)	44 (6%)
Total		140 (19%)	
<i>Mix (Shariah and non-Shariah fields)</i>			
Islamic Finance	4	14	15
Islamic Economics	22	14	12
Shariah and Law	27	2	3
Total	53	30	30
Total		113 (15%)	
Total (non-Shariah (field and mix)		253 (35%)	

**Table 7.**  
Educational  
background of  
Shariah board  
members in the  
FFCIBs

**Table 8.**  
Nationality of the  
Shariah board  
members in the  
FFCIBs by country

We obtained data on nationality for only 50% of the SSB members with 269 observations. The results show that SSB members come from 35 different countries. There are 17 countries where there are no local Shariah scholars. Table 8 shows the nationality of Shariah board members in the FFCIBs. The findings reveal that over 52% of the Shariah scholars come from five countries, i.e. Bangladesh, Malaysia, Saudi Arabia, Bahrain and Pakistan. Roughly 20% of the Shariah scholars are from Bangladesh, followed by Malaysia and Saudi Arabia with 12% and 8%, respectively. These are considered the top countries that produce the highest number of Shariah scholars. Surprisingly, the SSBs of the IBs operating in these countries have no international Shariah scholars (Table 9). Our findings are partially in line with the IFDI Report. The report highlights the top five countries in the number of Shariah scholars, Malaysia (184), Bangladesh (173), Indonesia (133), Sudan (77) and Iraq (76). This difference in numbers may stem from the fact that our sample excluded non-FFCIBs and IFIs other than banks.

Country	No. of Shariah scholars	Country	No. of Shariah scholars
Bangladesh	55	Mauritania	4
Malaysia	33	Palestine	4
Saudi Arabia	23	Somalia	4
Bahrain	16	Tunisia	4
Pakistan	13	Gambia	3
Egypt	11	Qatar	3
Kuwait	11	Thailand	3
Turkey	9	Afghanistan	2
Yemen	8	Algeria	2
Jordan	7	Bosnia	2
Syria	7	Indonesia	2
South Africa	6	Oman	2
Lebanon	5	Sri Lanka	2
Nigeria	5	Chad	2
Sudan	5	Iran	1
UAE	5	Kazakhstan	1
Brunei	4	Maldives	1
Kenya	4	Total	269

**Table 9.**  
Number of  
international Shariah  
scholars in the  
Shariah board of  
FFCIBs by country

Country	No. of international Shariah scholars	Country	No. of international Shariah scholars
Bahrain	16	Pakistan	3
United Arab Emirates	13	Senegal	3
UK	9	South Africa	3
Kuwait	7	Turkey	3
Qatar	6	Algeria	2
Oman	5	Djibouti	2
Germany	4	Maldives	2
Lebanon	4	Nigeria	2
Guinea	3	Bosnia and Herzegovina	1
Jordan	3	Sri Lanka	1
Kazakhstan	3	Sudan	1
Kenya	3	USA	1



The results also show that out of 52 countries where FFICBs operate, half of them have international Shariah scholars sitting on the SSBs. Bahrain has the biggest number of international Shariah scholars (16), followed by the United Arab Emirates (UAE) (13) and the UK (9). The countries having the least number of international Shariah scholars are Bosnia, Sri Lanka, the US and Sudan with only one international Shariah scholar.

#### 4.5 Age diversity

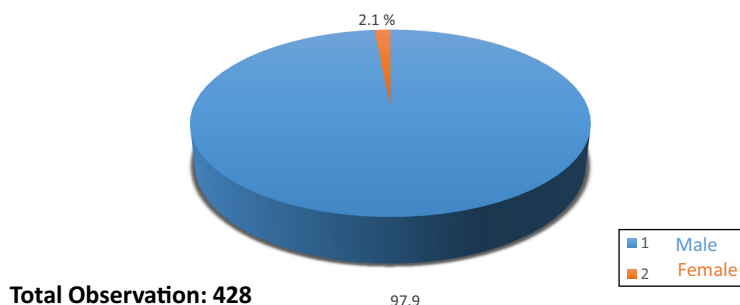
The members of boards tend to be selected for the depth of their knowledge and breadth of their business experience. As a result, boards tend to lack in age diversity (Wegge *et al.*, 2008). Age diversity may have some drawbacks, such as cognitive conflicts and lower group cohesion, which may have unpleasant results on corporate performance (Talavera *et al.*, 2018).

In this study, we classify SSB members into four categories with respect to age: 30–40, 41–50, 51–60 and 61 and above. The results for the 285 Shariah scholars show that 12 of them are in the range of 30–40, 76 of them are in the range of 40–50 and 66 of them are in the range of 51–60. The majority of SSB members (131/285) are 61 years and above. The share of scholars aged below 40 is only 4%. Figure 3 shows the age distribution of the SSB members in FFICBs. These findings confirm the traditional lack of age diversity of the SSBs.

The initial impression of the findings is that SSB members are age homogeneous, and IBs are seriously biased against middle-aged and young members. Old board members are preferred for their wisdom, experience and exposure. The findings are in line with the global trend on age diversity in boards. According to the PWC report (2018), directors aged 50 or under make up only 6% of the seats on S&P 500 companies' boards. Similarly, the average age of independent directors in S&P 500 companies has risen from 61 in 2007 to 63 in 2017, and approximately 21% of directors in the US public companies are 70 or older.

#### 4.6 Gender diversity

Many countries have imposed specific quotas for gender diversity on firms' boards to promote female representation. Gender equality and diversity have also been stated by the United Nations as the fifth sustainable development goal. However, the picture is not very bright in IBs. The female presence on IB boards is significantly lower than their conventional counterparts. This is usually attributed to the conservative attitude towards women in these institutions, a possible corollary of their religious concerns (Khan *et al.*, 2020) coupled with certain cultural norms that restrict female participation to a women-only environment resulting in less access to education and training opportunities for women in some parts of the Muslim world Islamic finance development report (2020). However, gender underrepresentation should



**Figure 3.**  
Gender distribution  
of Shariah board  
members in the  
FFCIBs

not be assigned to religious reasons. Cultural and social factors play primary roles for the lack of gender diversity on boards. In fact, there is no basis in Islam for any discrimination against women. This is clearly stated in the Holy Quran (3:195). In Surah al-Hujurat verse 13, all forms of prejudices based on race, colour, gender, language and nationality are rejected. Since the role of women in Islam is beyond the scope of this paper, we will not give further evidence supporting this argument.

Our findings show similar results for the low level of female representation in the majority of the SSBs in FFICBs. They are highly male-dominated. As shown in Figure 4, out of 428 observations, there are only nine female Shariah board members in six IBs or 2.1% of the total number. One of them is in Bangladesh (Eximbank), three are in Brunei (Bank Islam Brunei Darussalam), three in Malaysia (two in Bank Islam, one in Bank Muamalat), one in Indonesia (Bank Muamalat) and one in Tunisia (Bank Al-Baraka). Our results are also in line with the findings of the IFDI (2020) report that found low-level of women representation (3.8% of total SSB members) in the SSBs. The report documents 45 female members among 1,170 SSB members in all IFIs, 26 in Malaysia, 8 in Bangladesh, 8 in Iraq and 3 in Brunei.

5. Discussions

Our findings provide a mixed picture of diversity in the composition of SSB. On the regulatory side, the 13 analysed Shariah governance frameworks do not mention anything on the diversity of age, nationality and gender for SSB members, whereas they have specific conditions for the SSB members on education and professional experience as reflected by the findings of this research.

On the practical side, one of the striking findings is the lack of women’s presentation in the composition of SSB. As highlighted in the previous section, there are only nine female Shariah board members sitting on the SSB of six IBs, consisting of only 2.1% of the total number of SSB members covered in this study. In comparison to the global landscape, IBs have failed to keep up with the global improvements on board gender diversity. For instance, according to a recent report (2021) published by the European Parliament Economic Governance Support Unit, the share of female executive directors on board has risen in significant banks from 15.3% to 27.4% and the share of female supervisory directors on board has increased from 22.3% to 31.7% on euro area for the years 2014 and 2020, respectively. Thus, Islamic governance standard setting institutions should take more

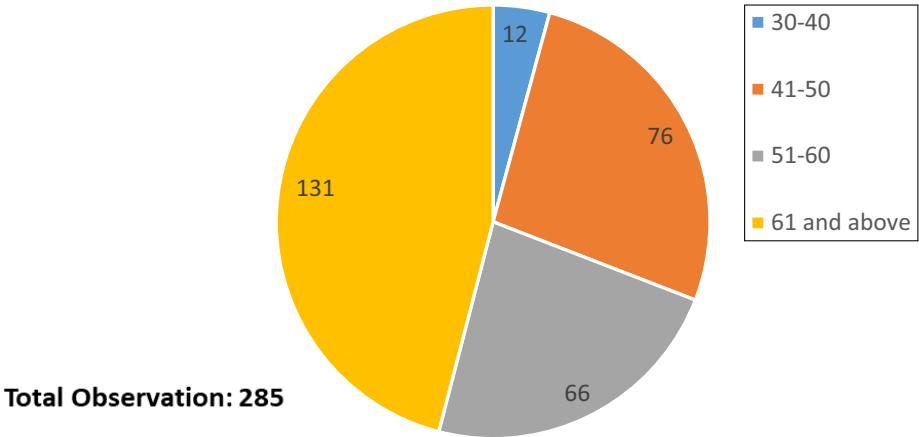


Figure 4.  
Age distribution of  
Shariah board  
members in the  
FFCIBs

serious steps in Islamic banking to encourage the presence of women on SSB and IBs should execute good practices to improve gender diversity.

Another interesting result in the study is the multiple memberships. The findings reveal that out of the 387 Shariah scholars, 66 of them (17%) sit on more than one Shariah board. The top 10 Shariah scholars occupy 74 Shariah board positions with an average occupancy rate of 7.4. Some scholars argue that this concentration may encourage standardisation of practices and fatwas and may promote the transfer of knowledge and experience among IBs ISRA and Thomson Reuters (2016), while some others point out the adverse effects of Shariah scholar concentration in the form of poor performance, and conflict of interest, claiming that the independence of the scholars will be questionable in such circumstances (Hassan and Lewis, 2007). These conflicting views create core criticism against Islamic corporate governance (Kasi and Mahmood, 2019). In fact, this issue came into the spotlight 10 years ago with the remarkable study of Funds @ Work (2010). It reported that the top 20 Shariah scholars occupy 621 board memberships, more than 50% of the total 1,141 board positions. The issue had become more exacerbated in 2016 by the Islamic Commercial Law Report (2016) published by the International Shariah Research Academy for Islamic Finance (ISRA) and Thomson Reuters. They stated that only ten Shariah scholars serve in 497 IFIs, representing nearly 76% of the total IFIs with SSB. This high concentration may create risk in efficiently doing the Shariah due diligence, which could adversely influence the reputation of IBs.

## 6. Implications of the study

The results of this study have both theoretical and practical implications. On the theoretical side, as argued by resource dependence theory, SSB members with different educational, experience, nationality backgrounds do not only provide advice, guidance and assistance to the management of IBs but also represent creativity and strategic thinking on new growth opportunities, depending on human and relational capital resources (Boukattaya and Omri, 2021). Therefore, the entire process improves the quality of decisions.

On the practical side, our findings provide valuable insights for regulators, policymakers and IBs. Although there is an acceptable level of diversity in the SSBs of IBs, the regulators should push IBs to disclose more information on the characteristics of SSB members like they do for the members of board of directors. Regulators and policymakers should also keep up with the global development on board diversity attributes such as age, tenure and gender diversity. The results show that out of 428 observations, there are only nine female SSB members in six IBs. This figure is quite low and alerts policymakers in the Islamic finance industry to embrace gender diversity in implementation. Although the lack of female representation in the SSBs can be attributed to the lack of female Shariah scholars, and conservative nature of communities in many OIC countries, IBs could take further steps in improving this progress. Finally, IBs should put more emphasis on the multiple memberships in the Sharia boards to manage potential concerns on the excessive membership in the SSB of IBs.

## 7. Conclusions, limitations and future directions

### 7.1 Conclusions

This study examines the diversity of the SSBs in IBs from both regulatory and practical perspectives. It covers 238 FFICBs from 52 countries and explores different characteristics of 428 Shariah scholars including multiple memberships, educational background, nationality, gender and age. Additionally, it examines 13 Shariah governance frameworks and standards with the purpose of assessing the provisions of diversity from the regulatory perspective.

The findings show that in terms of the geographical distribution of IBs, the MENA region hosts the majority of the FFICBs (57%) with 136 IBs operating in 19 countries, followed by sub-Saharan

Africa (22%) with 53 IBs operating in 12 countries. Although there are 428 Shariah scholars occupying 522 Shariah board positions in 238 FFICBs, there is no available information on board diversity for half of the IBs. The distribution of Shariah scholars also differs among the regions. MENA dominates with 252 Shariah scholars taking part in 136 banks, followed by South Asia and sub-Saharan Africa with 95 and 75 Shariah scholars, respectively. The FFICBs should disclose more information on the characteristics of the Shariah scholars to inform the shareholders and stakeholders. This will also help the development of the Islamic banking industry.

On the Shariah board diversity, the findings for the educational background reflect only the outcomes for 56% of the Shariah scholars due to data unavailability. Out of 259 Shariah scholars, 235 of them hold master's degrees and 225 of them hold PhDs. Most of the degrees (65%) are in Shariah-related fields, while 19% of them are in non-Shariah areas, e.g. finance, economics, accounting, law. One-third of the Shariah board members come from non-Shariah or mixed educational backgrounds. The results for educational diversity of SSBs present a positive signal in creating a sound corporate governance framework in the FFICBs.

As to nationality, based on the available data for 50% of the Shariah scholars, the results indicate that Shariah board members come from 35 countries. There are 17 countries where IBs operate but have no national Shariah scholars. Over 52% of the Shariah scholars come from five countries, i.e. Bangladesh, Malaysia, Saudi Arabia, Bahrain and Pakistan. Another finding is that, out of 52 countries, half of them have international Shariah scholars sitting on the Shariah boards. Bahrain has the highest number with 16 international Shariah scholars, followed by the UAE (13) and the UK (nine). Some countries such as Malaysia and Saudi Arabia have no international Shariah scholars on the Shariah boards of local banks.

In terms of gender and age, the results are not surprising. Shariah board members are overwhelmingly male (97.7%). A plurality of Shariah board members (46%) are 60 years and above, while only 4% of them are below 40. The FFICBs may be encouraged to increase the number of young Shariah scholars in the SSBs to respond to dynamically changing environments.

Finally, the results show multiple memberships of Shariah scholars in the FFICMs. Out of the 387 Shariah scholars, 66 of them (17%) sit on more than one Shariah board. Further, the top 10 Shariah scholars occupy 74 Shariah board positions with an average occupancy rate of 7.4. In such situations, conflict of interest and inferior performance may be inevitable in the Islamic banking industry.

## *7.2 Limitations and future directions*

We acknowledge that this study has some limitations. The data for many SSB members are not available neither on the websites of IBs nor on any database sources. Therefore, we conducted this study with available data. Regulators should force IBs to disclose at least minimum level of information about their SSB members to allow researchers to make more comprehensive studies. Additionally, we targeted only FFICBs in this study. Future research may conduct studies on the characteristics of SSB members of Islamic windows of conventional banks and other IFIs such as takaful companies, investment funds.

## **Note**

- 1 The last clause on gender has been completely removed from the final version of the Governance Standard 8.

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