Sharīʿah Governance in Islamic Banking Institutions in Pakistan: An Empirical Investigation

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Abstract:

The study investigates the impact of the essential components of *Sharīʿah* governance, i.e., the board of directors, executive management, *Sharīʿah* Supervisory Board, Resident *Sharīʿah* Board Members and *Sharīʿah* Audit (independent variables) on the enhancement of *Sharīʿah* governance (dependent variable) of Islamic banks in Pakistan. The study has used primary data of 500 respondents including *Sharīʿah* Scholars, *Sharīʿah* Board members, bankers, academia, *Sharīʿah* auditors, auditors of reputed firms, and the general public. Multinomial logistic regression analysis is used by categorizing the level of *Sharīʿah* governance into three, i.e., low, medium and high level. Data reliability and consistency is checked through Cronbach's alpha and heteroscedasticity. The study concludes that all the independent variables are presenting a strong association with a high level of performance of *Sharīʿah* governance in relation to medium level expect one variable "*Sharīʿah* review and audit' which is showing negative sign. This negative sign for '*Sharīʿah* review and audit' depicts that the high level of performance of *Sharīʿah* governance is likely to be deteriorated by 1.48 times in case of improvement in "*Sharīʿah* review and audit" level. This result is very intuitive since it has been often observed that too much audit review and control hurt and can lead to lower performance in the short run. The outcomes are empirically discussed in the context of coefficient and relative risk ratio. It finds that *Sharīʿah* governance can be strengthened by enhancing efficiency of the independent variables.

Key Words: Islamic Banks, *Sharīʿah* Governance, Impact of *Sharīʿah* Governance, Multinomial Logistic Regression

KAUJIE Classification: C2, C5, L22, L24

JEL Classification: G2, G39, Z12

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1. Introduction

Islamic banking and finance (IBF) is one of the rapidly growing business in global finance, Islamic banks are operating in all Muslim and many non-Muslim countries. In Pakistan, the move to promote Islamic finance was initiated in 1980s. Ayub, M. (2002) The Interest (*riba*) is prohibited in Islam. Modern banking interest is also a type of riba and therefore prohibited. (Khan, 2000; Usmani, 2008). The contemporary IBF system has been introduced as an alternative to the conventional system. Islamic Banking has to be conform to the *Sharī'ah* guiding principles by avoiding interest and other prohibited contracts/activities. As such, in order to ensure *Sharī'ah* compliance, contracts, products and services are supposed to be approved and supervised by the *SSB* or the *Sharī'ah* advisor. (Shahzad & Hameed, 2018)

The customers of Islamic banking require *Sharī'ah* compliance, (Ayub, Khan, Rashid, Shahzad, & Rehman, 2019; Shahzad, Saeed, & Ehsan, 2017; Surianom & Muhammad Amrullah, 2013; Zulkifli, Bin, 2011) Strong and effective *Sharī'ah* governance (SG) practices boost the level of confidence in Islamic banking. Without proper *SG* mechanism, the banks would be facing risk of *Sharī'ah* non-compliance, loss of revenues and the reputational risks.

Different Regularity authorities all over the world have issued numerous standards and guidelines to enhance *SG* practices in the Islamic financial institutions (IFIs). From the Pakistani perspective, the *SG* framework (SGF) issued by the SBP is an initiative to strengthen the *SG* system in IBI(s). (Ayub et al., 2019; Shahzad & Rehman, 2016; State Bank of Pakistan, 2018) The main objective of this paper is to investigate the impact of the essential components of the SG, i.e. board of directors (BODs), executive management (EM), *Sharī'ah* Supervisory Board (SSB), Residents *Sharī'ah* Board Member (RSBM) and *Sharī'ah* Audit (SA) on the enhancement of *SG* of Islamic banks using primary data.

2. Literature Review

Islamic banking was initially started in Pakistan in the early 1980s with the name of "Non-Interest based (NIB) System," though later declared as non-compliant to Islamic principles by the Federal Shari'at Court in 1991 and by Shariat Appellate Bench of the honourable Supreme Court of Pakistan in 1999. (Khan, 2000; Mansoori, 2001; Usmani, 2008). The NIB system was largely based on sale of debts / receivables and bai al Inah, both prohibited as per mainstream Islamic finance law (Ayub, 2002). Islamic Banking was re-launched in 2002, the State Bank has been allowing full-fledged Islamic banks (IB's), Islamic banking branches (IBB) or standalone Islamic banking systems of the conventional banks. To strengthen the *Sharī'ah* compliance environment, the State Bank of Pakistan (SBP) issues regulations from time to time. (State Bank of Pakistan, 2018) Later in 2014, the SBP issued a detailed SGF which was implemented in 2015, and later in 2018, a revised and comprehensive SGF was issued. (Ayub, 2016, 2019; Shahzad, 2016)

SG is a unique and significant feature of the Islamic banking and finance industry (Ayub et al., 2019; Rahim, Shith, & Osman, 2012), which differentiates Islamic banking from conventional banking system. The SG ensures the *Sharī'ah* compliance environment in Islamic banks. (Ayub, 2016; Ayub et al., 2019; Shahzad & Rehman, 2016) To implement *SG* more appropriately and effectively in the Islamic banking industry, the main components of SG should play their role. These components are the Board of Directors (BOD) Executive Management (EM) *Sharī'ah* Supervisory Board (SSB), *Sharī'ah* Audit (SA).(Minhas, 2012; State Bank of Pakistan, 2018)

2.1. Board of Directors

The business of the corporations is handled under Board of Directors (BoD) directions, control and oversight. The BOD delegates their powers to the chief executive officer, and to manage the business, the authority and responsibility transmit from the CEO to the senior and executive management. The role of the BOD is of supervisory nature; they supervise and monitor the performance of the management. (Saeed & Faiz, 2018)

Minhas (2012) has explained the *SG*, its importance, and methods which advocate strong *SG* system in Islamic Banks. He has discussed four pillars of *SG* and considered Management and BOD as the first pillar of SG. He indicates that the achievement of an organization, specially IFIs, is dependent upon the preparedness of the administration to approve and practically impose Islamic principles in the operations of an organization.(Minhas, 2012) Similarly, Kunhibava has highlighted the role of the BOD's in ensuring the proper implementation of the *SGF*. (Sherin Kunhibava, 2015)

Rahim et al. have reviewed the significance of governance of the IFIs and highlights similarities between the IFIs and the conventional institutions. He has also suggested SG criteria for IFIs that could attract potential and existing investors. (Rahim et al., 2012)

2.2. Executive Management (EM)

Nazreen Tabassum & Fahim (2015) discussed the role of *Sharī'ah* supervisory board (SSB) and management while implementation of the *Sharī'ah* and recommended that the management of the IFIs should be guided by revelation. (Nazreen Tabassum & Fahim, 2015) Minhas also highlighted the important role of Executive Management in the process of enactment of *SG*. He observed that an organization's success and especially the IFIs is dependent on the inclination of the administration of the organization to assume and implement Islamic guidelines in an organization. The establishment of acceptable resources, set-up and the ethics code for conduct of business operations and its validity in accordance with *SG* completely be contingent upon the administration of an organization. The strategies and the process would be insufficient if these are not realised and administered absolutely"(Minhas, 2012)

2.3. *Sharī'ah* Supervisory Board (SSB)

SSB, or simply *Sharī'ah* Board (SB) is an independent group of experts in *fiqh al-mua'malāt*. They may also include expert members other than "*fiqh al-mua'malāt*" who may be experts in the field of Islamic economics, banking, law, and economics as technical members. The core responsibility of the SB is to supervise the activities of the IFI and to ensure that their business, products, and services are compliant with *Sharī'ah* rules. They issue fatawas and guidelines in *Sharī'ah* rulings.(AAOIFI, 2015) *Sharī'ah* board members are the most important pillar of the *SG*, (Ayub, 2019; Ayub et al., 2019; Shahzad & Rehman, 2016). A competent, independent, and empowered *Sharī'ah* Board is essential to approve the *Sharī'ah* compliant instruments.(Garis & Pellegrini, 2006) Rammal is of the view that there is a shortage of competent *Sharī'ah* scholars world-wide. He suggested training of *Sharī'ah* scholars in Pakistan. Due to shortage, *the banks are hiring incompetent members for their Sharī'ah boards*. Rammal (2015) In another study (Mohamad, Sori, & Shah, 2015) discussed the effectiveness of *Sharī'ah* Supervisory Committees in IB(s) in Malaysia, specifically, the issues related to eligibility of SSB such as competency, independence, consistency and up to date knowledge and information etc. in Malaysian perspective. (Shahzad, Rehman, Saeed, & Ehsan, 2019) has pointed out the qualification of the SSB members and the Curricula of Religious Seminaries in Pakistani perspective. They concluded that the existing curricula of

Deeni Madaris (Religious Seminaries) is not sufficient to understand the modern Islamic financial transactions.

Garas, and Pierce (Garas N & Pierce, 2010), examined the role of the council of *Sharīʿah* scholars within and outside the central banks of the countries where Islamic Banks are operating, i.e., SSB, *Sharīʿah* Advisor, and *Sharīʿah* consulting firms. The paper has also evaluated the functions of SSB. The most important find of the paper was the lack of standardization of the position of the SSB within the corporate hierarchy in IFIs. Al-Qattan (2008) is of the view that the work of the *SSB* can well be organized and recognized at the professional level globally if the agreement amongst themselves will be accepted only what comes from this institution. (Shahzad, Rehman, Saeed, & Ehsan, 2019)

2.4. *Sharīʿah* Audit (SA)

Sharīʿah Audit is an independent examination of the financial transactions of IB(s) banks to ensure *Sharīʿah* compliance in the products and services of Islamic banks. (Shahzad, 2015; Shahzad & Rehman, 2016; Shahzad et al., 2017)

Shafii et al. (2013) have evaluated the impact of the *SA* function regarding the implementation of the SGF using the case study method, which includes interviews regarding the *SA*. In another study, Shafii et al. (2013) have proposed *Sharīʿah* compliance audit framework and concluded that the risk of *Sharīʿah* non-compliance could be mitigated through *Sharīʿah* compliance Audit. (Yahya & Mahzan, 2012) has investigated the current practice of *SA* among the IFIs in Malaysia using interview methods. The paper discovered that the practices of *SA* are in the development stage and need improvement. (Nawal Kasim, 2009) has also examined the theoretical as well as practical aspects of *SA* in IFIs in Malaysia with the ultimate aim of identifying whether there is any gap between theory and practice? The study is based on surveys from various groups of respondents related to *SA* and compliance in the IFIs. The author is of the view that the concept of *SA* should be expended and it is necessary to develop a strong and effective *SA* framework to ensure the *Sharīʿah* compliance in IFI's.

Rahman (2013) investigated the perception and practice of *SA* in Bangladeshi Banks using primary and secondary data. The researcher used frequency distribution method to analyze and interpret the views of the respondents. He concluded that *Sharīʿah* scholars are quite satisfied; however, the other respondents i.e. professionals auditors and academia, were not satisfied with *SA* in Islamic banks. Besides, the *Sharīʿah* scholars were of the view that the internal audit should conduct *SA* under the guidance and supervision of the SSB, but other respondents were of the view that it should be conducted independently.

Ahmad, and Al-Aidaros (2015) evaluated the importance and independence of the *Sharīʿah* members in Islamic cooperative banks in Malaysia using descriptive analysis through questionnaires. Based on results, 52% of *Sharīʿah* auditors had total independence. The auditors were of the view that there was a shortage of team members as also the lack of experience in the team members. To enhance the knowledge, the respondents were of the view that the auditors should improve their educational level and expertise.

Kasim et al. (2009) explored empirically the gap between "the desired" and "the actual" practice of *SA* in the IFIs of Malaysia. The study found that there was a gap between both concepts, and the *SA* had not any considerate impact on the IFIs in Malaysia.

Shahzad et al. (2017) investigated the *SA* mechanism and challenges faced by IFIs after the implementation of SGF issued by SBP. They suggested that as *SA* was a different

activity as compared to the conventional audit, there was a need for training and development of audit staff of the audit firms to conduct external *SA* in IFIs.

3. Data and Methodology

The core objective of this study is to investigate the impact of the basic components of *SG*, i.e., the BODs, EM, *SSB*, RSBM and *SA* (independent variables) on the improvement in *SG* (dependent variable) of Islamic banks. The primary data from 500 respondents of various fields including *Sharī'ah* Scholars, SSB members, bankers, academia, *Sharī'ah* auditors, auditors of reputed firms and the general public, was collected through a survey based on a structured questionnaire.

TABLE 1
LIST OF RESPONDENTS

Sample Category	Number of Samples
Sharī'ah Scholars	100
Sharī'ah Supervisory Board Members of IBIs	100
SA Members of IBIs	50
Scholars and Students of Islamic banking and finance	130
Depositors and General Public	100
Auditors of Reputable firms	20

It can be concluded from the overall survey data analysis that most of the respondents are male and have academic qualifications relevant to Islamic finance, audit, and corporate governance. The respondents are also holding reputed positions in the Islamic finance industry, academia and religious academia, which make the sample of the study a very significant and valid portfolio of respondents for the survey designed for this study. Various respondents are holding professional and academic positions regarding *Sharī'ah* audit and governance and this factor enhanced the robustness of data gathered through a survey.

The multinomial logistic regression analysis has been used by categorizing the level of *SG* into three, i.e., low, medium, and high levels of *SG*. Data reliability and consistency is checked through Cronbach's alpha and heteroscedasticity. The data collected for this research study is through primary means, i.e., questionnaires with five-point Likert scale. The independent variables of this study are having the ordinal form of data. The logit model was first used in the 19th century for the explanation of the growth of populations and the course of autocatalytic chemical reactions or chain reactions (Cramer 2003).

There is an extension or generalization of binary logistic regression in which more than two ordinal outcomes are taken into consideration, which is called "multinomial logistic regression model". In this model, the log odds of the results are modelled as a linear combination of the predictor variables. Multinomial logistic regression is a generalization of logistic regression, which is used to predict the probabilities of different possible outcomes of a categorically distributed dependent variable given a set of independent variables. (El-Habil, 2012)

The basic procedure and setup is the same for the multinomial logistic regression model as in simple logistic regression. The only difference between the two models is that in the "multinomial logistic regression model" the dependent variables are categorical rather than binary. The equation for this research study in light of the multinomial logistic regression model is as follows:

Logit (*Sharīʿah* Governance) $= \beta o + (BOD).\beta 1 + (M).\beta 2 + (SSB).\beta 3 + (RSA).\beta 4 + (SA).\beta 5$

STATA 11.0 software has been used to analyze the model mentioned above. STATA has categorized the various regression analysis in the context of the data structure and sequence, which means that if the data sequence is known to the researcher, it would be quite easy for him/her to select the regression model to implement on the data.

3.1. Results and Discussion

The data have been gathered through a questionnaire under seven different heading, which later become dependent and independent variables for the research study. The dependent variable is *Sharīʿah* Governance, while independent variables are BODs, Executive Management, *Sharīʿah* board, RSBM (independence of *Sharīʿah* Board Member/RSBM), and *Sharīʿah* review.

Each heading included various questions, ranked on a five-point Likert scale, to address different aspects in order to make the variable more robust and comprehensive. In order to extract the final numerical value for each variable, simple average of outcomes of various questions under each heading is taken.

The dependent variable was divided into three categories, i.e., 1 as a low level of performance / efficiency of *SG*, 2 being medium level, and 3 as a high level of *SG* quality. These categories were extracted as follows; a simple average of the outcomes of questions asked under the heading of *SG* was done, which gave us a single value for the dependent variable. These values were later categorized into three sections, i.e., 1, 2 and 3. It implied that average values of 1 to 1.5 falls in the first category, average values of 1.6 to 3.0 fall in the second category and third category contain average values range 3.1 to 5. It finalized the data for the dependent variable as well, and now the data will be exported to STATA for analysis of Multinomial logistic regression.

3.2. Data Reliability and Consistency Check

This section is about reliability and consistency of the data finalized for the execution of multinomial logistic regression. Cronbach's alpha is used for the measurement of internal consistency. The value of the reliability coefficient or Cronbach's alpha of 0.70 or higher is considered acceptable for the analysis of data. The value of 0.70 and above is termed as good, 0.80 and above is better and, 0.90 and above is best, i.e., data sets and variables are reliable in the sense of their estimation and result extraction. The results of Cronbach's alpha of the data for this research study are mentioned below:

Cronbach's alpha	
Average inter-item covariance:	.0882061
The number of items in the scale:	7
Scale reliability coefficient:	0.8478

Inter-item covariance (observations=445 in all pairs)

The value of Cronbach's alpha coefficient is 0.8478, which, according to the range of values mentioned above depicts that, the data under consideration is termed as better in the context of its reliability. The next step is to check the variance error in the independent variables, and for this purpose heteroscedasticity test of the independent variables is done. Breusch-Pagan/Cook-Weisberg test for heteroscedasticity is executed. In this regard, first of all, linear regression is done to examine the heteroscedasticity in the independent variables

further. Below are the results of the linear regression of six independent and one dependent variable:

Source	SS	df	MS		
Model	122.222437	6	20.3704062	**Number of obs.**	445
Residual	137.305653	438	0.313483225	**F(6, 438)**	64.98
Total	259.52809	444	444.584522725	**Prob > F**	0.0000
				R-squared	0.4709
				Adj. R-squared	0.4637
				Root MSE	0.5599

SG	Coeff.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
BOD	0.4588382	0.650338	7.06	0.000	0.331021	0.5866554
EM	0.1499357	0.0834959	1.80	0.073	-0.0141668	0.3140381
SB	0.2011491	0.0728912	2.76	0.006	0.057889	0.3444092
RSBM	0.170596	0.0473337	0.36	0.719	-0.0759697	0.110089
IRSBM	0.0310187	0.0464277	0.67	0.504	-0.0602301	0.1222674
SR	0.0397778	0.0629135	0.63	0.528	-0.083872	0.1634276
Cons	-0.0598561	0.1007537	-0.59	0.553	-0.2578769	0.1381647

After calculating and executing simple regression, we now use command for the execution of heteroscedasticity by executing the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity. Below are the results extracted from the test:

Variables: BOD (Board of Directors) EM (Executive Management) SB (*Sharī'ah* Board) RSBM (Resident *Sharī'ah* Board Member) IR (Internal *Sharī'ah* Review) SR (*Sharī'ah* Audit)

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity	
Ho: Constant variance	
chi2(6)	12.51
Prob > chi2	0.0515

The null hypothesis in the above results states that data of six independent variables are homoscedastic and do not have heteroscedasticity, and in order to not reject the null hypothesis, we need to have a p-value of more than 0.05. Therefore, the p-value of the data under examination of six independent variables is more than 0.05, and based on the results mentioned above; it can be concluded that the data under examination do not have heteroscedasticity. Therefore, we can proceed with multinomial logistic regression analysis without going through any further analyses.

3.3. Multinomial Logistic Regression Analysis:

SG, which is the response variable or dependent variable in this research study, is treated as categorical with assumptions that level of *SG* has no natural ordering. The second category or middle level of performance of *SG* (dependent variable) is taken as referent group (base outcome) and the other categories shall be analysed in reference to middle group. The analysis and description of multinomial logistic regression for this research study shall be done in respect of two ways; multinomial logistic regression coefficients and relative risk

ratios. Below are the results of multinomial logistic regression coefficients which are followed by introductory details, and then explanation or interpretation of results.

3.3.1. Multinomial Logistic regression coefficient

Iteration-0: log likelihood = -299.74888

Iteration-1: log likelihood = -263.24924
Iteration-2: log likelihood = -217.07882
Iteration-3: log likelihood = -204.66313
Iteration-4: log likelihood = -203.85918
Iteration-5: log likelihood = -203.85527
Iteration-6: log likelihood = -203.85527

Multinomial Logistic Regression
Number of obs. = 445
LR chi2 (12) = 191.79
Prob > chi2 = 0.0000
Log likelihood = -203.85527 Pseudo R2 = 0.3199

Sharī'ah Governance (SG)	Coefficient	Std. Err.	Z	P>z	[95% Conf.	Interval]
1						
Board of Directors	-1.652607	.3608459	-4.58	0.000	-2.359852	-.9453617
Executive Management	-.6746596	.4252916	-1.59	0.113	-1.508216	.1588967
Sharī'ah **Board**	-.4997839	.3585548	-1.39	0.163	-1.202538	.2029705
Resident *Sharī'ah* Board Member	-.0268014	.2298313	-0.12	0.907	-.4772625	.4236597
Independence of SBM/RSBM	-.0395304	.2322825	-0.17	0.865	-.4947957	.4157349
Sharī'ah **Review & Audit**	-.0408589	.3136068	-0.13	0.896	-.655517	.5737992
_cons	7.548813	.8616052	8.76	0.000	5.860098	9.237528
2	(base outcome)					
3						
Board of Directors	1.708592	.5279254	3.24	0.001	.6738772	2.743307
Executive Management	.0991507	.7267883	0.14	0.891	-1.325328	1.52363
Sharī'ah **Board**	1.390262	.859003	1.62	0.106	-.2933533	3.073877
Resident *Sharī'ah* Board Member	.4283506	.5955311	0.72	0.472	-.738869	1.59557
Independence of SBM/RSBM	.4013879	.5073123	0.79	0.429	-.592926	1.395702
Sharī'ah **Review & Audit**	-1.485787	.7605894	-1.95	0.051	-2.976515	.004941
_cons	-8.998666	1.658651	-5.43	0.000	-12.24956	-5.747769

The above is the detailed analysis of data obtained through a survey for the examination of relationship and impact of independent variables of the study on performance or excellence of *SG*.

The Pseudo R2 mentioned in the results is known as McFadden's pseudo R squared, and it is mentioned here because logistic regression does not have any equivalent to R squared calculated in OLS regression. The pseudo R square of logistic regression is not equivalent or similar to R square of OLS regression; and therefore, it is recommended not to compare the values of pseudo R square in the context of R square of OLS regression.

SG which is mentioned in the above estimation table is response or dependent variable in the study and under this section are mentioned two replicates of independent variables which are estimated in the context of low (1) level of *SG* relative to medium (2), and high (3) level relative to medium (2). The medium level, which is represented by value 2, is taken as a base outcome in this model and other both levels of *SG* are estimated with this base outcome.

The multinomial logistic regression estimates k-1 models, where k is the number of levels of the dependent variable and in the case of this research study, the number of outcomes is 3.

The next column of the estimation data mentions details of the logistic regression coefficient and these are called estimated multinomial logistic regression coefficients.

In this study, the middle level of excellence and efficiency of *SG* is set as base outcome or referent group. The interpretation from low level relative to referent group i.e., medium level in the context of board of directors. In this regard, for a one unit increase in level of performance of board of director for low level of *SG* relative to medium level, keeping all other variables constant, the multinomial log-odds for low level of *SG* to medium level would be expected to decrease by 1.65 units.

Similarly, on the same parameters and format, all other variables can be interpreted in relation to the low level of *SG* relative to medium level. The second independent variable is executive management and keeping all other variables constant if we do a one-unit increase in executive management for the low level of *SG* relative to medium level, it would be expected to decline by 0.67 unit. The result for the independent variable of *Sharī'ah* board in the context of a low level of *SG* relative to medium level, which is referent group, declines by 0.49, and in the context of RSBM by 0.02.

In short, the results of the details mentioned above can be summarized in the way that a probability of occurrence of the low level of *SG* relative to medium level is less while seeing the results of all independent variables. It can be restated that the probability of occurrence of medium level of excellence of *SG* increases when one unit increase in the level of independent variables is initiated. Now, below is mentioned the interpretation of results of the high level of performance or excellence of *SG*, which is ranked as 3, in relation to base outcome or referent group which is the medium level of excellence of *SG*.

The outcomes of the regression coefficient in the category of high performance or excellence *SG* is giving us all positive values of the independent variable except one. It can be stated that all the independent variables contribute positively to the enhancement of a high level of excellence or performance of *SG* when looking with the base outcome.

The independent variable which is showing a negative trend is *Sharī'ah* review and audit, which means that keeping all other independent variables constant, if we increase the level of performance of *Sharī'ah* review and audit for a high level of *SG*, the performance of SG would decline by 1.48 units. It can be concluded that independent variables contributed positively to achieving a high level of performance or excellence of *SG*. In other words, the probability occurrence of a high level of performance or excellence of *SG* relative to medium level (base outcome) is more. The overall conclusion of analysis and interpretation of the results of the multinomial logistic regression coefficient is that the independent variables of this study contribute positively to the enhancement of performance or excellence of overall *SG*.

3.4. Relative Risk Ratios

In order to enhance the robustness of the results mentioned in the previous section, data has also been analyzed through relative risk ratios. The relative risk ratio or risk ratio, in general, elaborates the strength of association among different variables and in this research study, the relative risk ratios shall present the level or strength of association of dependent variable (*Sharī'ah* governance) and independent variables of the study. A detailed overview of the results of relative risk ration is mentioned below, which are extracted through Stata and come under the heading of multinomial logistic regression.

Iteration-0: log likelihood = -299.74888
Iteration-1: log likelihood = -263.24924
Iteration-2: log likelihood = -217.07882
Iteration-3: log likelihood = -204.66313
Iteration-4: log likelihood = -203.85918
Iteration-5: log likelihood = -203.85527
Iteration-6: log likelihood = -203.85527

Multinomial logistic regression
No of observations   =   445
LR chi2 (12)   =   191.79
Prob > chi2   =   0.0000
Log likelihood   = -203.85527
Pseudo R2   =   0.3199

Sharī'ah Governance (SG)	RRR	Std. Err.	Z	P>z	[95% Conf.	Interval]
1						
Board of Directors	.1915499	.06912	-4.58	0.000	.0944342	.388539
Executive Management	.5093298	.2166137	-1.59	0.113	.2213044	1.172217
Sharī'ah **Board**	.6066617	.2175215	-1.39	0.163	.3004306	1.225036
Resident *Sharī'ah* **Board Member**	.9735546	.2237533	-0.12	0.907	.6204796	1.527542
Independence of SBM/RSBM	.9612407	.2232794	-0.17	0.865	.6096954	1.515484
Sharī'ah **Review & Audit**	.9599646	.3010515	-0.13	0.896	.5191736	1.774998
2	(base outcome)					
3						
Board of Directors	5.521182	2.914772	3.24	0.001	1.961829	15.53828
Executive Management	1.104233	.8025434	0.14	0.891	.2657158	4.588851
Sharī'ah **Board**	4.015901	3.449671	1.62	0.106	.7457586	21.62557
Resident *Sharī'ah* **Board Member**	1.534724	.913976	0.72	0.472	.4776538	4.93114
Independence of SBM/RSBM	1.493897	.7578721	0.79	0.429	.5527077	4.037807
Sharī'ah **Review & Audit**	.2263242	.1721398	-1.95	0.051	.0509702	1.004953

The results mentioned above are quite similar to the multinomial logistic regression coefficient with few differences. Initial details are all the same, but the only difference pertains to the column of the relative risk ratio.

Looking at the results with a low level of *SG* relative to medium level of *SG*, the level of association of dependent variables and independent variables is less than 1. All the independent variables are presenting a similar sort of trend in this section, which means that the strength of independent variables with a low level of performance or efficiency of *SG* is less.

The above mentioned description of results can be explained in simple manners as: independent variables used in the study are positively impacting for enhancing efficiency of *SG* which is dependent variable of the study.

It also tells us that independent variables are not contributing to achieving the low performance of *SG*. So, low level of *SG* is less preferred over the medium level of *SG*, or chance of occurrence of medium level of *SG* increases as compared to a low level.

Similarly, the results of the high level of performance and excellence of *SG* and level of association of independent variables with a dependent variable to achieve this level in relation to medium level (base outcome), shows us a trend of the high level of association among dependent variable with independent variables. All the independent variables are presenting a strong association with the high level of performance of *SG* in relation to medium level except one variable, the *Sharīʿah* review and audit.

The same variable presented out of the trend results in the multinomial logistic regression coefficient when all the independent variables were contributing positively to the high level of *SG* performance when looking in relation with a medium level of performance of *SG*. In general, the overall results of relative risk ratios predict that independent variables of this study have a direct and strong relationship with a high level of performance and efficiency of *SG*. Therefore, both sections of logistic regression results, i.e., multinomial logistic regression coefficient and relative risk ratio, illustrate the significance of independent variables towards positive contribution in the enhancement and achievability of high level and efficient position of *SG* in general.

Conclusion & Recommendations

Sharīʿah governance plays a significant and pivotal role in the performance and operational efficiency of the IBFIs in general. (Grassa, 2015; Haqqi, 2014; Muhamad Sori, Mohamad, & Shah, 2015; Rahajeng, 2013) It is because of the pivotal role of corporate governance in the conventional financial industry, and in this regard the responsibilities of IFIs become greater while showing compliance with business practices of corporate governance and also making it in line with *Sharīʿah* guidelines.

Keeping in consideration the importance of *SG*, current research study is focused on empirical examination of impact of various factors, i.e., board of directors, executive management, *Sharīʿah* board, and resident *Sharīʿah* board member, independence of Sharīʿah board member/RSBM, and *Sharīʿah* review and audit (independent variables) on *SG* (dependent variable). The study has used primary data gathered through the survey, and then data is empirically analyzed on Stata. Multinomial logistic regression analysis is used, which is termed as the most suitable parametric model for empirical estimation of survey data.

The research study has limited its empirical analysis and theoretical discussion to Islamic banking institutions in Pakistan and performance factors of *SG*. The study is not comparative and therefore, no other country is taken under discussion. Another reason of confining the research study within the boundaries of Pakistan is that different countries and international institutions have issued or applied specific *SG* frameworks for their regions and therefore, discourse of the current research does not accommodate it. The novelty of empirical analysis of performance factors of *SG* also does not let the researchers to add any framework as comparison.

The estimation of multinomial logistic regression is presented in two contexts; first is coefficient and secondly relative risk ratios. The multinomial logistic coefficient tells that how much and in what direction the independent variables are impacting the dependent variable, whereas, relative risk ratio helps to empirically determine the level of association among independent and dependent variables. The results of both sections tell that the ~~high~~ performance of *SG* is enhanced and positively contributed by all the independent variables except one, i.e., *Sharīʿah* Review and Audit. This independent variable shows a negative contribution towards a high level of performance and efficiency of *SG* and also the negative level of association when checked in the relative risk ratio section.

Therefore, the results extracted in this research study differ substantially from the literature reviewed in this research study. The literature in general discussed the importance

and significance of different items of *SG*, e.g., BODs, EM etc. and explained that all the items of *SG* hold equal importance in enhancing the performance of *SG*. But the current research study emphasizes on the fact of significance of *SG*, the level of impact of its different items and their impact on the overall performance of an Islamic bank. The empirical results of this research study endorsed the discussion on the importance and significance of different items in enhancing *SG*, but these results differ from already published literature in the context of negative or inverse relationship of high performance of *SG* and *Sharī'ah* review and audit. These variation in results from existing literature may untap an opportunity for further research on why the specific item is negatively impacting the high level of performance of *SG*. The study also holds unique position in already published literature in the context of its empirical analysis and examines all aspect of *SG* separately in a single study. This would allow researchers to have comprehensive picture of performance factors of *SG*.

The research study carries significant suggestions and policy guidelines for the IBIs in Pakistan in specific, and non-bank IFIs of the country in general. The empirical analysis of different aspects of *SG* would enable the policy makers of financial sector to ponder upon specific aspects for enhancing the performance of Islamic financial industry of the country. Islamic economic system is the ultimate goal and IBIs and IFIs are the most strategic segment of the whole system. Therefore, in order to have a viable and sustainable Islamic economic system, its organs need to be strong and effective in high performance. It is for this reason, this research study has focused its discussion on vital organ of Islamic financial systems whose high performance lets enhancement in consumers' confidence.

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