Corporate governance, chief executive officer power and performance of Islamic banking in east africa

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Fauziya Brek Karama

School of Business and Economics, Islamic University of Kenya, Kenya.
Email: fauziyakarama@gmail.com

ABSTRACT

This study aims to investigate the relationship between corporate governance variables, CEO power, and the performance of Islamic banking in East Africa. A Hierarchical panel regression model was to test both direct and indirect effect. Panel data was collected from all 10 full-fledged Islamic banking in East Africa and conventional banks with Islamic banking window for 7 years (2013-2020). Empirical results showed that board independence, board financial expertise and board activity positively affect performance of Islamic banking in East Africa. Powerful CEO negatively moderated the effect of board independence and board financial expertise on performance of Islamic banking in East Africa. Based on the findings, board independence, board financial expertise and board activity play a major role on improving performance of Islamic banking. In addition, the study support agency theory perspective that powerful CEO can reduce independence of board directors, hence limiting board activity and board financial expertise positive contribution on performance of Islamic banking. There has been limited studies on corporate governance and performance of Islamic banking in East Africa. This study contributes on board independence, board financial expertise and board activity of Islamic banking literature. The study provided crucial insight on corporate governance variables of Islamic banking in East Africa and their link performance.

Keywords: *Board activity, Board financial expertise, Board independence, Corporate governance.*
JEL Classification: *G30; G38; G39.*

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Highlights of this paper

- Corporate governance has a significant impact on the performance of Islamic banking.
- The presence of board independence, board financial expertise, and board activity has a positive impact on the performance of Islamic banking in East Africa.
- The influence of a powerful CEO had a negative effect on the relationship between board independence, board financial expertise, and the performance of Islamic banking in East Africa.

1. INTRODUCTION

Financial performance is one of the most important metrics of a company's success. The better a company's financial performance, the more likely it is to expand and develop its production, generate jobs, and enhance the quality of life of its employees. A firm's financial performance is seen as a crucial and vital component that can aid the company's survival in long term and competitiveness. If the firm's financial performance cannot be maintained, it will not be able to compete in the long run (Ishaq, Islam, & Ghouse, 2021). According to Antoun, Coskun, and Georgiezski (2018) optimal financial performance represents success of company management and efficiency in resource utilization, hence contributing to the broader economy's growth.

Globally, performance of insurance firms has continued to improve, for example, according to Islamic Financial Services Board (IFSB) (2020) the asset value of Islamic financial institutions has risen to $1.76 trillion by the end of 2019. During financial crises compared to conventional banking, Islamic banking had a better performance (Sorwar, Pappas, Pereira, & Nurullah, 2016) for instance, over the years Islamic banking have been increasing the leverage.

Growth in Islamic banking capital structurers has risen over the years (Hasan & Dridi, 2011; Parashar, 2010). Contrary to conventional banking which regulators permit interest on long-short term borrowing, Islamic banking severely adhere to shariah law of no interest on loans a shariah knowns as "riba" (Hoque & Liu, 2022). Islamic bank improve their performance by using profit sharing modules that enables deposits and equity to leverage on their assets (Al-Deehani, Karim, & Murinde, 1999). Therefore, Islamic banking prioritize in optimizing capital structure which largely depend on corporate governance (Bukair, 2019).

Corporate governance might be a major factor in facilitating banks to pursue an optimal firm performance, which enables managers to ensure maximum shareholder value as well as reduce potential social costs of bank failures (Stulz, 2022). Corporate governance is a framework through which a firm is controlled and important decisions, such as strategies to enhance firm performance. Organisation for Economic Co-operation and Development (OECD) (2004) therefore corporate governance is a set of linkages between an organization's management, the stakeholders, the organization's board as well as shareholders. Through Corporate governance, a system upon which a firm's objectives are set, met and the performance closely monitored. In the last years, Banking regulators as well as supervisors have decreed and expected the enforcement of numerous corporate governance practices by banks (Basel Committee on Banking Supervision, 2010; Board of Governors of the Federal Reserve System (US), 2010).

Corporate Governance plays a crucial role in enhancing firm performance within conventional banking by facilitating effective collaboration among top management, the board of directors, shareholders, and stakeholders (Wahyudin & Solikhah, 2017). According to Hussien, Alam, Murad, and Wahid (2019), an excellent corporate governance framework translates to efficient resource distribution and revenue generation within the banking industry. Additionally, Shaikh (2018) assert that Islamic Banks (IBs) governance is not significantly different from traditional banks, as they follow a set of guidelines that promote accountability and transparency, aiming to safeguard the interests of shareholders.

Magalhães and Al-Saad (2013) proved that a good corporate governance framework is depended on legal framework, management structure and organizational assets, therefore CG in Islamic financial institutions was the same as the conventional governance. In addition Mollah, Hassan, Al Farooque, and Mobarek (2017) was in support that challenges affecting Islamic governance is due to mainly shareholders having confidence that IBs have the ability , stability and follow the shariah law. Mollah et al. (2017) further argued that IBs governance should be achievable and the services rendered needs further studies. Hence, this study aims to consider the role played by corporate governance especially board of directors' factions in performance of Islamic banking and shed more lights on the idea of its corporate governance (CG).

In consideration of the potential effect of these on the Islamic banking sector social economic development of a country, the central Bank of Kenya (CBK) has made it mandatory for banks to abide by restrictive reforms. To achieve these, the boards have the mandate to make decisions on performance of Islamic banking among other banking activities. Nevertheless, far less research investigating how various aspects of corporate governance such board independence, board activity, board financial expertise affects performance of Islamic banking (Aslam & Haron, 2020; Darwanto, 2019). In addition, Previous empirical research has limited inclusion of CEO power (CP) as having an interactive effect between corporate governance and performance of Islamic banking. This study examined the nature of relation between corporate governance, CEO power and performance of Islamic banking from an agency theory.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Aligned with the principles of agency theory, boards primarily comprised of external directors are strategically positioned to safeguard shareholders' interests, thereby demanding commendable organizational performance. Hillman and Dalziel (2003) underscore that agency theory illuminates the control role of directors while simultaneously acknowledging the resource and service functions performed by external board members. Drawing from both theoretical and empirical literature, a higher proportion of independent directors signifies an elevated monitoring capability wielded by the board of directors. IFSB (2014) underscores the pivotal role played by independent directors in overseeing the performance management of Islamic banking activities within IBs. The absence of board independence was identified as a contributing factor to governance failures during the 2008 Global Financial Crisis. Mollah and Zaman (2015) uncovered that boards of directors in IBs dominated by independent members exhibited a stronger capacity to oversee and regulate administration. Chou and Buchdadi (2017) discerned that an independent board positively impacts net interest margins in large-scale banks. In the context of small-scale banks, an independent board contributes positively to market value, although it occasionally lacks insights that could impede accounting-based revenue generation. Consequently, the formulated hypothesis is as follows:

H_1: There is significant effect of board independence on performance of Islamic banking.

Expert financial professionals situated on the boards of banking institutions contribute strategic guidance and vigilant oversight that effectively safeguard and promote the economic interests of shareholders, policyholders, and other stakeholders. Contemporary corporate governance literature, exemplified by Faleye, Hoitash, and Hoitash (2011), underscores that organizations grappling with intricate technicalities, such as banking entities, require heightened monitoring and profound insights from financially astute board members. These financial experts actively engage in monitoring the management's financial decision-making capabilities and future prospects, offering hands-on policy evaluations. As evidenced by Sarwar, Xiao, Husnain, and Naheed (2018) and Gîrbină, Albu, and Albu (2012), a positive correlation exists between the proportion of board members possessing postgraduate qualifications in financial domains and the market-based performance of organizations, as observed in companies listed on the Bucharest Stock Exchange.

H_2: There is no significant effect of board financial expert on performance of Islamic banking.

The theory of Agency, as posited by Fama and Jensen (1983), endorses the role of board monitoring as a mechanism to mitigate the inherent conflicts of interest between CEOs and shareholders. It advocates for enhanced board monitoring through regular communication between the board and its sub-committees, aiming to mitigate the challenges of moral hazard and information asymmetry that plague contemporary corporations (Kanagaretnam, Lobo, & Whalen, 2007), consequently curbing CEOs' opportunistic behavior and yielding favorable outcomes for shareholders (Jensen & Meckling, 1976; Méndez & García, 2007). Therefore, the practice of conducting regular board meetings serves as a platform for directors to diligently fulfill their monitoring responsibilities, offering an impartial perspective on the company's strategic planning, risk management, financial reporting accuracy, and assessment of CEO decisions and performance (Appiah & Amon, 2017; Vafeas, 1999).

Hence, the consistent convening of board meetings signifies an ongoing vigilance exercised by the board, fostering an environment in which effective strategic decisions are made and executed by the company's management (Agyei-Mensah, 2021; Burke, Hoitash, & Hoitash, 2019), thereby contributing positively to business performance (Mangena, Tauringana, & Chamisa, 2012; Musleh, 2019; Ntim, Soobaroyen, & Broad, 2017; Saleh et al., 2021). The study therefore underlines the Agency theory's perspective, specifically within the context of board meetings and Islamic performance in East Africa, and subsequently formulates the following hypothesis:

H_3: There is significant effect of board activity on performance of Islamic banking.

According to Javeed, Ong, Latief, Muhamad, and Soh (2021), the influencing role of the CEO is a crucial aspect of organizational corporate governance. According to Adams, Almeida, and Ferreira (2005), a CEO's success is frequently determined by their duration, positions held (especially if they also serve as chairman), or performance in comparison to their counterparts. According to Javeed et al. (2021), a strong CEO can have an impact on board decisions, thereby jeopardizing board independence and hindering efficient monitoring efforts. According to Adams et al. (2005), such substantial CEO influence frequently correlates with increased performance variability, showing a penchant for policies that produce riskier results. Pathan and Skully (2010) go on to emphasize that a bank's CEO power can be useful as well as detrimental. A CEO's experience within a complicated business may be helpful to a bank struggling with monitoring expenses. According to the 2007 results of Larcker, Richardson, and Tuna (2007) CEO influence can also be an indicator of poor corporate governance, which undermines board independence. The interaction between board size and its borrowers was thoroughly examined by Faleye and Krishnan (2010), who came to the conclusion that either CEO authority or board size increases bank risk, ultimately resulting in lowered credit ratings for borrowers and negatively affecting bank performance. As noted by Davidson, Ning, Rakowski, and Elsaid (2008) and Elsaid and Davidson III (2009), the effect of the CEO power endures regardless of the conditions, such as the CEO being a successor, the outgoing CEO being forced to retire, or a new CEO chosen from within or outside the organization. When measured by Brockmann, Hoffman, Dawley, and Fornaciari (2004), this power can be divided into two types: formal power, which develops when the CEO also serves as board chairman, and informal power, which is entwined with the CEO's network and social standing among partners.

In the organizational context, however, CEOs who wield significant decision-making influence possess the capability to exert control over both the board and the shareholders. This manifestation of robust CEO power could significantly impact their performance in the domain of Islamic banking behavior. Pathan (2009) conducted an investigation involving 2122 major US banks, revealing that a CEO's ability to influence board decisions (referred to as CEO power) yields a detrimental effect on Islamic banking bank performance, thereby amplifying agency conflicts. CEOs endowed with heightened power are more averse to engaging in ventures with elevated risk (Mollah & Liljeblom, 2016; Pathan, 2009). Nonetheless, in societies characterized by individualism, managerial optimism tends to be more pronounced, leading to a propensity for disregarding ambiguity and embracing risky initiatives (as highlighted in studies by Breuer, Riesener, and Salzmann (2014); Chui, Titman, and Wei (2010) and Li, Griffin, Yue, and Zhao (2013). Therefore, it becomes conceivable that the adverse association between CEO power and the performance of Islamic banking could be somewhat mitigated by the presence of individualism. Javeed et al. (2021) confirmed these observations, deducing that the positive relationship between AC and firm performance is influenced by the moderating impact of CEO power.

H_{4a}: a powerful CEO moderate the relationship between board independence and performance of Islamic banking

H_{4b}: a powerful CEO moderate the relationship between board financial and performance of Islamic banking.

H_{4c}: a powerful CEO moderate the relationship between board activity and performance of Islamic banking.

3. SAMPLING AND DATA SOURCES

This research conducted a thorough analysis, surveying 10 full-fledged Islamic banks in East Africa as well as conventional banks with Islamic banking windows over the course of a thorough 7-year period, from 2013 to 2020. The study mostly drew from secondary sources, particularly audited financial statements and annual reports furnished by management, which it used as its primary source of secondary data. The Central Bank of Kenya (CBK), the Nairobi Securities Exchange (NSE), and other important organizations served as the meticulous sources of secondary data for this investigation.

3.1. Measurement of Variables

Table 1 outlines the measurement and variables used in the study, providing a comprehensive overview of each factor being assessed: Performance of Islamic Banking (FP) was measured suing Return n Assets (ROA) by utilizing the formula Earnings Before Interest and Taxes (EBIT) divided by Total Assets (Ramadhan, Selim, & Sahwan, 2019). Board independence is measured by dividing the total number of non-executive or outside directors by the size of the board (Taillard & Williamson, 2012). Board Financial Expertise (BFE) was mwasured bby dividing the number of board directors with financial degrees or experience (BDFE) by the board size (BS) (Taillard & Williamson, 2012). The degree of board activity is gauged by the number of meetings held by the board per year (Vafeas, 1999). CEO power is determined by an index based on factors like tenure, ownership, experience, and age. The variable is further denoted using dummy codes, where '1' signifies observations above the sample median, and '0' represents otherwise (Gupta, Han, Nanda, & Silveri, 2018). Firm age is evaluated by calculating the number of years a bank has been in operation since its registration by the Central Bank of Kenya (CBK) (Eriki & OSifo, 2015).

3.2. Model Specification

The study employed panel data analysis as the foundational approach to elucidate the relationships among the variables under investigation. Depending on the nature of the panel data, the researcher can choose from three distinct panel data analysis techniques. To ascertain the most suitable model for this study, the Hausman test was conducted, a crucial step in the methodology. The analysis entailed the evaluation of control effects and direct effects through separate equations.

Table 1. Measurement of variables.

Variables	Symbols	Measurement		Empirical studies
Performance of Islamic banking	FP	Return on asset (ROA)	Earnings before interest and taxes (EBIT)/Total Assets)	Ramadhan et al. (2019)
Board independence	BI	Dividing total No. of non-executive/outside directors with size of board size	BI = NED/BS	Taillard and Williamson (2012)
Board financial expertise	BFE	Dividing No. of board of directors with financial degree or experience (BDFE) with Board size (BS)	BFE = BDFE/BS	Taillard and Williamson (2012)
Board activity	BA	Number of meetings held per year		Vafeas (1999)
CEO power	CEO	Index of CEO power based on tenure, ownership, experience, age	dummies code of CEO power '1' if the observation is above the sample median and '0' otherwise)	Gupta et al. (2018)
Firm age	FA	Number of years a bank has been in operation since registration by CBK		Eriki and OSifo (2015)
Firm size	FS	Natural log of total assets	FS=lnTA	Laeven, Ratnovski, and Tong (2014)

In this context, the Panel Hierarchical Regression Model emerged as the chosen methodology, serving as the vehicle to investigate the nuanced interactions between the performance of Islamic banking and the corporate governance variables (including board activity, board independence, and financial expertise of the board of directors), while under the moderating influence of a robust CEO. The initial model was devoted to assessing control effects, while the second model directed attention to direct effects. Finally, the fourth model was deployed to explore interaction effects, shaping a comprehensive and systematic investigation.

$$y_{it} = \beta_{0it} + \beta_{1it} fa_{it} + \beta_{2it} fs_{it} + \varepsilon_1 \quad (1)$$

$$y_{it} = \beta_{0it} + \beta_{1it} fa_{it} + \beta_{2it} fs_{it} + \beta_{3it} bi_{it} + + \beta_{4it} bfe_{it} + \beta_{5it} ba_{it} + \varepsilon_i \quad (2)$$

$$y_{it} = \beta_{0it} + \beta_{1it} fa_{it} + \beta_{2it} fs_{it} + \beta_{3it} bi_{it} + \beta_{4it} bfe_{it} + \beta_{5it} ba_{it} + \beta_{6it} CP_{it} + \varepsilon_3 \quad (3)$$

$$y_{it} = \beta_{0it} + \beta_{1it} fa_{it} + \beta_{2it} fs_{it} + \beta_{3it} bi_{it} + \beta_{4it} bfe_{it} + \beta_{5it} ba_{it} + \beta_{6it} CP_{it} + \beta_{7a} bi_{it} * CP_{it}.$$

$$+\beta_{8it} bfe_{it} * CP + \beta_{9it} ba_{it} * CP_{it} + \varepsilon_7 \ldots\ldots \quad (4)$$

Where, y is the measure of bank risk taking, β_0 is constant of the equation, fis Firm size, fa is Firm age, bi is Board independence, bfe is Board financial expertise, ba is Board activity, Cp = CEO power ,, it is firm at time t .

4. EMPIRICAL ANALYSES AND DISCUSSION

4.1. Descriptive Characteristics

The study's variables are comprehensively detailed in Table 2. The obtained results reveal that banks offering Islamic banking services exhibited an average independence rate of 77% (as shown in Table 2). Furthermore, the mean for board financial expertise stood at 0.37, while board activity scored an average of 5.63. Additionally, the mean CEO power (CP) amounted to 2.17. On average, the banks have been operational for 40 years and possess an average size of 16.83. Consequently, the measurement statements of the study variables approximately adhere to a normal distribution. The outcomes presented in Table 2 distinctly demonstrate that there exists a positive relationship between board independence and the performance of Islamic banking ($r = 0.408$, $p < 0.01$), thereby suggesting that heightened director independence correlates with improved risk management. Equally noteworthy is the observed negative correlation between board financial expertise and performance of Islamic banking ($r = -0.501$, $p < 0.01$), indicating that an increase in the financial expertise of company directors is associated with a decline in the performance of Islamic banking. Likewise, board activity exhibits a negative relationship with performance of Islamic banking ($r = -0.193$, $p < 0.01$), implying that heightened directors' involvement in day-to-day company operations is linked to reduced Islamic banking performance. Further insight from the correlation results demonstrates a negative relationship between CEO power and performance of Islamic banking ($r = - 0.331$, $p < 0.01$), underscoring that elevated CEO power is connected to diminished Islamic banking performance. However, it is noteworthy that both firm size and firm age did not display significant correlations with the performance of Islamic banking.

Table 2. Descriptive characteristics of exogenous, control and endogenous variable.

Obs.(70)	Max.	Min.	Mean	Std. dev.	FP	BI	BFE	BA	CP	FS	FA
FP	-0.01	0.44	0.10	0.17	1						
BI	100.00	16.67	77.27	17.79	0.41**	1					
BFE	0.83	0.00	0.37	0.18	-0.50**	-0.63**	1				
BA	15.00	1.00	5.63	3.07	-0.19**	0.39**	-0.31**	1			
CP	8.00	0.00	2.17	1.08	-0.33**	-0.17**	0.34**	-0.12	1		
FS	25.70	8.72	16.23	2.57	0.08	0.43**	-0.21**	0.27**	-0.02	1	
FA	121.00	1.00	40.36	29.82	0.04	0.51**	-0.26**	0.26**	-0.06	0.22**	1

Note: ** Correlation is significant at the 0.01 level (2-tailed).

4.2. Diagnostic Tests of the Data

Before hypothesis testing using Fixed and random effect model, data was tested for Heteroscedasticity, Normality, Jarque-Bera normality, Autocorrelation, Wooldridge test for autocorrelation and Multicollinearity. Heteroscedasticity assumption was tested using White test which had p-value of 0.1570 hence, the null hypothesis was not rejected s the error variance is constant. Normality was assed using The Jarque-Bera Test and established that the residuals were normally distributed. Wooldridge test statistic for checking data for autocorrelation in the residuals from a statistical regression analysis had Prob>F = .4966>0.05 and indication that was no first order autocorrelation (Field, 2009). Variance Inflation Factor (VIF) tests for multicollinearity had values ranging between 1.21 and 2.54. If the value of VIF >10 and the tolerance is <.20, multicollinearity is a worry (Dielman, 2001; Gujarati, 2003). Therefore, from the above resulrs, there is no potential issue with this study. Therefore, it is concluded that there is no multicollinearity issue based on the findings of the diagnostic tests.

4.3. Unit Root Test

In this research, the Levin-Lin-Chu unit-root test, Harris-Tzavalis unit-root test, and Im-Pesaran-Shin unit-root test were employed. The outcomes reported in Table 3 demonstrate that the p-values obtained from all three tests were below 0.05, leading to the rejection of the null hypotheses for all the study variables. This implies that the data does not exhibit unit roots, indicating that the variances and means within the panel data are not time-dependent. Consequently, the study's hypotheses can be effectively assessed using Ordinary Least Squares (OLS), as well as the Fixed and Random Effect models (Gujarati, 2003).

Table 3. Unit root test.

	Levin-Lin-Chu unit-root test		Harris-Tzavalis unit-root test		Im-Pesaran-Shin unit-root	
	Statistic	p-value	Rho	p-value	Z-t-tilde-bar	p-value
Zscore	-5.556	0.000	-0.308	0.000	-4.088	0.000
FP	-2.921	0.002	-0.143	0.000	-4.948	0.000
BO	-7.599	0.000	-0.296	0.000	-6.197	0.000
BFE	5.134	0.000	-0.146	0.000	-5.428	0.000
BA	-4.961	0.000	-0.252	0.000	-5.094	0.000
CP	-4.154	0.000	-0.282	0.000	-6.533	0.000
FS	-3.046	0.001	0.454	0.000	-2.690	0.004
FA	-2.347	0.000	-0.204	0.000	-7.226	0.000

4.4. Test of Hypotheses

In testing hypothesis, first Hausman test was applied in choosing a model to use between Fixed and random effect. Based on results in Table 4 all Hausman test for the four models had p values above 0.05 hence accepting now hypothesis and indication that the study could use fixed effect estimator in testing hypothesis . This means that the most appropriate model is the fixed effects.

Table 4. Fixed Hierarchical regression results.

	Model 1	Model 2	Model 3	Model 4
FP	Coef.(Se)	Coef.(Se)	Coef.(Se)	Coef.(Se)
_cons	(-3.582)(2.965)	1.261(2.276)	1.380(.2.237)	50.965(.13.331)**
FS	2.104(1.088)*	-0.693(.822)	(-0.664(.804)	(-18.248(4.731)**
FA	0.661(0.252)*	-0.677(.202)**	-0.760(.202)**	(-0.785(.186)**
BI		0.971(.252)**	1.092(.239)**	(-10.016(2.907)**
BFE		0.594(.087)**	0.468(.093)**	-0.508(.094)**
BA		0.344(.069)**	-0.412(.070)**	(-0.491(.073)**
CP			-0.517(.206)*	(-0.533(.373)
BI*CP				-4.002(1.044)**
BFE*CP				-0.275(.084)**
BA*CP				(-0.072(.083)
R-sq:	0.030	0.560	0.590	0.624
R-sqΔ		0.530	0.030	0.004
Wald chi2(3)	24.72	360.54	400.98	487.71
Prob > chi2	0.00	0.00	0.00	0.00
sigma_u	1.143	0.744	0.748	0.747
sigma_e	2.231	1.454	1.402	1.304
rho	0.211	0.211	0.224	0.246
Housman test				
chi2(6)	0.103	18.177	16.892	19.371
Prob>chi2	0.010	0.0112	0.021	0.013

Note: *p<0.05, **P<0.01 .

Findings in Model two indicated that the three corporate governance variables (board financial expertise, board activity and board independence) together with control variables explained (size and age of the banks) 68% variation in performance of Islamic banking in East Africa. This relationship is statistically significant as the F value (Wald chi2 (3)=400.98,p<0.0) of the model is significant at the 0.01 level.

Based on the outcomes observed in model 3, it was evident that board independence exerted a notable yet adverse impact on the performance of Islamic banking (β = -0.971, p = 0.000 < 0.05), thus validating the support for hypothesis H1. This suggests that enhanced board independence contributes to the enhancement of Islamic banking performance in Kenya. The results presented in Table 4 (model 3) revealed a positive and significant influence of board financial expertise on the performance of Islamic banking in Kenya (β = 0.591, p = 0.000 < 0.05), substantiating the backing for hypothesis H2. Similarly, within the same model, board activity demonstrated a constructive and meaningful correlation with the performance of Islamic banking (β = -0.343, p = 0.000 < 0.05), hence affirming the support for hypothesis H3. This implies that an elevated level of board activities in commercial banks could potentially diminish the performance of Islamic banking.

Moving on to model 4, the results indicated a positive and substantial moderating influence of CEO power on the relationship between board independence and the performance of Islamic banking (β = 2.95; ρ < 0.05) (Table 4). Furthermore, the findings unveiled that CEO power enhances the aforementioned relationship by 1% (R-sqΔ = 0.01), thereby confirming the validation of hypothesis H4a. This suggests that CEO power plays a role in strengthening the link between board independence and Islamic banking performance. However, the impact of CEO power on the association between board activity and Islamic banking performance was not found to be significant (β = -0.07; ρ < 0.05). Further results indicated that CEO power neither weakens nor intensifies the correlation between board activity and Islamic banking performance, with an increment of 1% (R-sqΔ = 0.00). Consequently, hypothesis H4b was not substantiated. Additionally, the outcomes in Model 4 (Table 4) disclosed a significant moderating effect of CEO power on the connection between board financial expertise and Islamic banking performance (β = 0.28; ρ < 0.05). Further findings demonstrated that CEO power bolsters the relationship between board financial expertise and Islamic banking performance, resulting in an increase of 1% (R-sqΔ = 0.01). Hence, hypothesis H4c was validated. In summary, these results underline the impact of CEO power on the interplay between board financial expertise and Islamic banking performance.

5. DISCUSSION OF FINDINGS

Board independence had a positive and significant effect on performance of Islamic banking. This shows that banks with higher number of non-executives directors are more likely to have superior performance. This may be attributed to the failure of independent directors in supervising internal activities inncontrast to the internal or executive directors who wield more command over bank procedures and undertakings. As asserted by O'Sullivan, Mamun, and Hassan (2016) a large number of independent directors in banks that failed on operation oversight may erroneously advocate for bank personnel salaries and benefits with the idea of retaining optimum human resource (O'Sullivan et al., 2016). Accordingly, an independent and successful board ought to monitor managers, safeguard the interests of minority shareholders and take part in strategy generation. In line with Islamic banking performance, an independent board ought to typically endorse high risk investments, resulting in massive growth and yielding higher revenue. The results are iterated by Kor and Misangyi (2008) who maintain the stance that the external directors are well experienced and can positively impact organization performance. The findings are similar to those of Chou and Buchdadi (2017) results that an independent board has a positive impact on performance among the big scale banks. However, the findings are contrary to those of Brick and Chidambaran (2010) and Pathan (2009) who found a negative relationship between presence of independent directors and performance. The results are similar to those of Cheng (2008) and Lewellyn and Muller-Kahle (2012) who found a negative but insignificant relationship between independents and performance. While the independent board of directors among small scale banks positively influence the market value, they however have a dearth of knowledge that could impede a banks accounting based revenue leading to high performance. Pathan (2009) noted that higher board independence levels result in reduced performance of Islamic banking activities. O'Sullivan et al. (2016) discovered that a huge proportion of independent directors heightens organizations' operational and market risk. This is contrary to the results presented by Fama (1980); Fama and Jensen (1983); Pathan (2009) and Htay, Rashid, Adnan, and Meera (2011). Elevated operational risk could come about when banks are reliant on higher independent director proportions.

Board activity had a negative and significant effect on performance of Islamic banking. This indicated that banks with high level of board activities are likely to lessen performance of Islamic banking. The results back up Ferreira and Laux (2007) assertion that regular holding of meeting by board of directors board meetings are crucial for enabling directors to accomplish their responsibility of monitoring duties and getting information specifically of the firm-specific information, which enables them to manage risks and improve firm performance Meetings, according to De Andres and Vallelado (2008) give board members the chance to discuss and share ideas regarding how to keep an eye on management and develop a risk management of the bank strategy. Therefore, the closer the control over management and the more important the advisory function played by the board are, the more frequently the meetings are held and the higher the bank performance. Additionally, the complexity of the banking industry and the criticality of data increase the relevance of the board advisory position, particularly in challenging market conditions. The board's regular meetings, thorough examination of bank risk and strategy profile, and consideration of any remedial action that may be required are all crucial for success in this position. When it comes to severe market dynamics, more meetings are required to ensure that the board responds quickly to unforeseen events and any related systemic risks.

Board financial expertise had significant effect on performance of Islamic banking. The financial expertise of board members with significant coefficient shows the importance of having board members with financial knowledge or experience toward improving performance of Islamic. Decisions about the performance of Islamic banking are influenced by the attitudes, knowledge, and viewpoints of directors with various financial backgrounds. Financial backdrop provides context for how business decisions are being made and how they are evaluated in different business contexts (Khanna & Yafeh, 2007). It facilitates information processing, impacts skill level, and influences decisions regarding the effectiveness of Islamic banking (Geletkanycz & Black, 2001). Additionally, board members with prior banking experience and financial knowledge may assess how bank regulations affect Islamic banking performance more accurately (Srivastav, Armitage, & Hagendorff, 2014). However, according to Bertrand and Schoar (2003) board members from a variety of financial backgrounds tend to be more assertive and operate banks with higher levels of leverage, which suggests they adopt riskier business policies. According to Taillard and Williamson (2012) the performance of Islamic banking is improved by the financial guru of directors.. A board containing members of varying backgrounds is frequently hesitant of risk taking. In the same manner, Berger, Bouwman, Kick, and Schaeck (2016) and Grable, McGill, and Britt (2009) disclosed that strong board financial background is closely related to superior performance of Islamic Banking. In addition past literature regarded the correlation between risk and financial background to be either positive (Bertrand & Schoar, 2003; Grable, 2000) or negative (Graham & Harvey, 2001). Financial background, according to Godard and Schatt (2000) advances firm performance of Islamic banking.

In accordance with the research findings, CEO power effectively amplified the association between board independence and the performance of Islamic banking. In concurrence with the discoveries, Pathan and Skully (2010) argue that a clear role differentiation is imperative to ensure the preservation of board independence, with the CEO not gaining any additional advantages. According to Larcker et al. (2007), CEO power serves as an indicator of feeble corporate governance and acts as a hindrance to the establishment of board independence. As disclosed by Faleye and Krishnan (2010), expanding either the size of the board or the extent of CEO power generally heightens a bank's risk, leading to a decline in the credit ratings of their borrowers. Nevertheless, the moderating effect of CEO power was not found to be significant in relation to the correlation between board activity and Islamic banking performance. To conclude, CEO power exhibited a positive and meaningful moderating impact on the link between board financial expertise and the performance of Islamic banking.

Leveraging the board's expertise and CEO's authority, banks can effectively manage financial leverage, thus culminating in risk-attenuated outcomes.

6. CONCLUSION

The investigation confirmed that board independence wields a favorable impact on the performance of Islamic banking. This might be attributed to the proficiency of external directors, enabling them to exert a positive influence on the company's overall performance. The findings suggest that institutions with an elevated presence of outside directors are more effectively shielded against risks. Companies maintaining an optimal gearing ratio often boast a higher composition of independent directors, while those with a minimal proportion of such directors experience diminished advantages. The presence of independent directors significantly contributes to enhancing an organization's capability to garner recognition from external stakeholders. Consequently, this reduction in ambiguity regarding the organization augments the firm's fundraising potential. Consequently, an augmented percentage of independent directors on the board leads to an elevation in optimal gearing ratios.

Regarding board financial expertise, it plays a positive role in information processing and decision-making related to Islamic banking performance, as elucidated by Geletkanycz and Black (2001). Furthermore, board members equipped with prior experience in the banking industry and financial proficiency are better equipped to assess the ramifications of bank policies on Islamic banking performance. This proficiency contributes to more informed decisions concerning Islamic banking performance (Srivastav et al., 2014). The greater the financial acumen among directors, the stronger their grasp of managing financial risks within banks.

Insights from Ferreira and Laux (2007), along with other experts, underscore that board meetings serve as vital conduits through which directors access firm-specific insights and fulfill their supervisory role, resulting in effective risk management. De Andres and Vallelado (2008) emphasize that meetings offer a platform for board members to deliberate and exchange ideas on optimal practices for overseeing management and executing bank strategies through a risk management lens. Hence, the frequency of meetings correlates with tighter managerial oversight and heightened advisory contributions of the board. It is further expected that an increased frequency of meetings is essential to ensure a prompt board response to market events, which in turn contributes to reducing systemic risk levels.

7. MANAGERIAL IMPLICATION

The positive influence of board independence and board ownership on bank performance is noteworthy, in contrast to the negative impact of board financial expertise and board activity on the same. Independent boards are closely linked with elevated performance levels, underscoring the significance of reducing the presence of non-executive board members. This reduction should be accompanied by a strategic enhancement of their role in monitoring and assessing the consequences of board decisions, especially in the context of a strong CEO.

Robust financial expertise among independent directors impedes performance of Islamic banking behavior. Inferior or lack of financial expertise by board members is frequently a cause for several organizations shutting down, increased financial expertise among independent board members, leads to reduced performance in banks. These results shed more light on banks in ensuring board members are well qualified in financial matters which is likely to discourage risk with negative impact on the banks. Based on the study findings, board activities reduces performance, therefore banks board members need to ensure there is more purposive and constructive meetings held in year. This help in more decision regarding risk involved in any new investment being taken.

8. POLICY CONTRIBUTION OF THE STUDY

The study puts forth a recommendation for policymakers to maintain a regular review of corporate governance policies, aimed at safeguarding shareholder wealth from the actions of opportunistic managers. It is imperative to address the substantial threat that emerges when management pursues personal gains at the expense of long-term sustainability. To this end, the implementation of additional policies is necessary, ones that heighten the board of directors' awareness regarding both the risks and opportunities faced by firms. Furthermore, sustainability considerations should be woven into the core responsibilities of these boards. This is underscored by the fact that boards hold the responsibility of fortifying governance mechanisms, alongside managing risks and internal controls, all within the framework of legal mandates for social responsibility. In line with contemporary global concerns, boards of directors should exhibit advanced expertise, diverse perspectives, and a wealth of knowledge. The study's findings, centered around CEO power, board independence, financial expertise, and board activities, provide valuable insights for the enhancement of corporate governance systems.

9. THEORETICAL CONTRIBUTION OF THE STUDY

The study examines moderating of CEO power on the relationship between corporate governance and bank performance between the year 2013 to the year 2020. This study results provide a study blueprint of how board financial expertise, board activities and board independence could exert influence on Islamic banking performance. Additionally, the review delivered theoretical support to agency theory that under a powerful CEO, non-executive directors and those with financial expertise are more inclined to influence bank performance in a negative way. The study results endorse the notion by agency theory that increased CEO/chairperson power leads to opportunistic managerial behavior resulting lack of independence among board members. The recuing CEO power could therefore misalign the interests of board of directors with those of the shareholders result in low performance.

10. FURTHER RESEARCH RECOMMENDATIONS

These findings need to be replicated to other industries particularly in the manufacturing industry in order to determine whether the instrumental role of corporate governance on risk management can be realized. In addition, there is need for subsequent research to raise the number of Firms sampled. Upcoming reviews ought to conduct a long-term evaluation to validate the transformation of corporate governance and performance in banks over a sustained period in Kenya, possibly over ten years. Extensive reviews ought to be conducted specifically to establish a comparative analysis of the practice of corporate governance and performance in financial institutions such as banking companies, insurance, and microfinance or investment banks in Kenya.

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