Guest editorial

1. Recent developments on Islamic corporate governance (ICG)

1.1 Preamble

This special issue consists of 8 papers which were selected from a total submitted 20+ papers. Out of these we selected eight papers after lengthy and careful reviews. Each paper was sent to two to three reviewers, in light of referees comments the papers were revised and improved. Some of the papers went through more than one revision. We are thankful to the reviewers, the chief editor Don and the Emerald allocated editorial assistant for the continuous support over the last 12 months to bring this issue at its current format. These papers are organized as they appear in the acceptance process.

2. Papers details

This special issue begins with an introductory paper entitled, "The new paradigm of Islamic corporate governance" by the co-editors of this special issue Walid Mansour and M. Ishaq Bhatti. The paper in general examines the new paradigm of ICG using analytical approach to investigate the new executive and managerial roles that ICG is expected to play in global setting. It argues that executives must endorse ICG to improve the growth of the Islamic finance industry by sustaining its survival in the global financial world, and improve the welfare of around 25 percent of the world poorer population to eliminate the poverty using socio-economic funds generated by the Islamic finance industry.

The second major paper is authored by Mongi Lassoued with title, "Corporate Governance and financial stability in islamic banking." This is an empirical paper that examines the relationship between ICG and financial stability of the Islamic Banking Institutions in Malaysia. It measures the level of bank stability by *Z*-score indicator. The ICG variables are the *Shari'ah* board (SB) size, size of board members and the proportion of independent directors in the board. The paper uses a panel of 16 Islamic banks data between 2005 and 2015 and run the regression using OLS, fixed, the GLS random-effect models to conduct empirical study. The study found that the percentage of independent members in the board of directors have a significant positive impact on the financial stability of the Islamic banks. However, the SB size and the size of board are found to have no influence toward financial stability.

The third paper entitled, "Risk-sharing finance governance: Islamic vs conventional indexes option pricing" is authored by Jihed Majdoub and Haykel Hamdi. It explores different governance factors that affect risk-sharing governance across option pricing and portfolio hedging in discrete and dynamic cases with transaction costs. An empirical comparison is done by conducting a Monte Carlo simulation for each conventional and Islamic index for USA and UK markets. Simulations show that conventional and Islamic assets do not exhibit the same price and portfolio hedging strategy governance. Risk governance has an important influence on the hedging performances in option pricing and portfolio hedging in both discrete and dynamic settings for both conventional and Islamic indexes. The paper concludes that Islamic assets show different option pricing and hedging strategy compared to their conventional counterpart.

The fourth paper is written by Sami Mensi. The title of the paper is "Corporate Governance, risk and efficiency: evidence from Gulf Cooperation Council (GCC) Islamic banks." The objective of the paper is to determine the simultaneous effect of corporate governance of GCC Islamic banks on efficiency and risk. The variables considered in this

Managerial Finance
Vol. 44 No. 5, 2018
pp. 510-512

0307-4358
DOI 10.1108/MF-05-2018-520

paper are *Shari'ah* supervisory board size, CEO-duality and ownership structure as corporate governance (CG). The variables, like efficiency and risk are measured using the data envelopment analysis (DEA)/stochastic frontier analysis and *Z*-score, respectively. It uses seemingly unrelated regressions on a sample of 56 GCC Islamic banks during the period 2004-2013. The paper observes that "implementing rigorous CG structures correlates with higher efficiency levels". In particular, the paper shows that the governance structure of Islamic banks allows them to take higher risks to achieve a high efficiency level.

Hana Ajili and Abdelfatteh Bouri contribute the fifth paper entitled "Assessing the moderating effect of *Shari'ah* board on the relationship between financial performance and accounting disclosure." The main objective of the paper is to measure SB quality and to examine its moderating effect on the relationship between financial performance and accounting disclosure quality. It uses a sample of 90 Islamic banks during the period 2010-2014. The accounting disclosure quality and the SB quality were measured using self-developed indices. The paper observed that there is a negative moderating effect of SB quality on the relationship between performance and disclosure. It also notes at high level of SB quality, even when the performance is lower.

Nejla Mezzi's paper entitled "Efficiency of Islamic banks and role of governance: empirical evidence" is the sixth paper of the special issue. It considers the efficiency level of Islamic banks in the MENA region and Southeast Asia and the role of the governance in improving performance. It uses DEA method and the panel data regression based on the three proxies of cost efficiency. The major findings of the paper are: islamic banks are experiencing an improvement in their efficiency cost. The technical efficiency of Islamic banks is largely explained by the scale efficiency where Islamic banks realize large economies of scale in order to achieve optimal size especially in Malaysia and the GCC countries. Pure technical efficiency is less important than the efficiency of scale and improvement is necessary regarding the managerial performance. For ICG, results show that the board of directors through its size and independence and the presence of a central SB constitute robust determinants of the Islamic banks efficiency. The ownership structure and the size of the SB have no effect on banking efficiency.

The seventh paper entitled, "Analyzing financial performance by integrating conventional governance mechanisms into the GCC Islamic banking framework" is authored by Husam-Aldin Al-Malkawi. The author integrates conventional CG's mechanisms into the Islamic banking framework in order to examine their impact on Islamic banks' financial performance within the GCC context. It uses a sample of 22 full-fledged Islamic banks operating in the GCC countries over an 11-year period from 2005 to 2015. A panel data regression is used to conduct empirical study with five CG mechanisms and three control variables. The model's parameters are estimated using feasible generalized least squares framework. The results show that five internal CG mechanisms have statistically significant relationship with Islamic banks financial performance (IBPF), measured by *Q*-ratio. Insider shareholding is found to be positively associated with IBFP, while institutional and government shareholdings are found to be negatively related to *Q*-ratio, the results being consistent with the agency theory, strategic alignment theory and property rights theory, respectively. Moreover, the results reveal that large board size and CSR engagement negatively influence IBFP, once again lending support to agency theory and trade-off theory, respectively. Moreover, leverage, size and age are statistically significant with IBFP.

The last paper is written by Dodik Siswantoro and Haula Rosdiana. The title of the paper is, "Reconstructing accountability of the Cash *Waqf* (Endowment) Institution in Indonesia." The main objective of the paper is to reconstruct the accountability of the cash *waqf* institution in Indonesia. The paper employs the qualitative method with four characteristics under constructive paradigm. The paper observes that the cash *waqf* institution in Indonesia has unique and different logical characteristics, which is neither unitary nor pluralist. It shows that Islamic finance institutions apply *Shari'ah* regulation and must generate big income for social activities.

Walid Mansour
Saudi Arabian Monetary Authority, Riyadh, Saudi Arabia, and
Muhammad Ishaq Bhatti
La Trobe University, Melbourne (Bundoora), Australia