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The Impact of Shariah Governance on Sustainable Financial Performance in Islamic Banks: Moderating Role of Insider Ownership and Institutional Ownership

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Abstract

This study investigates the impact of Shariah governance on the sustainable financial performance of Islamic banks in Pakistan, with insider and institutional ownership examined as moderating factors. Drawing on stakeholder and agency theory, the analysis uses panel data from 22 Islamic banks over the period 2014–2023, applying ARDL models, correlation, and Granger causality tests. Performance was assessed from three perspectives: management efficiency (ROAA), shareholder returns (ROAE), and market valuation (Tobin's Q). The results reveal that strong Shariah governance enhances operational and shareholder performance but has limited influence on market valuation, suggesting that investors may undervalue governance quality. Insider ownership shows mixed effects, aligning managerial incentives with shareholders yet undermining market confidence, while institutional ownership consistently strengthens governance performance linkages. These findings highlight the importance of substantive, rather than symbolic, Shariah governance and balanced ownership structures in driving long-term sustainability. The study offers practical insights for regulators, managers, and investors as Pakistan transitions toward a fully interest free financial system.

Keywords: *Performance, Shariah Governance, Corporate Governance, Banks, Islamic.*

Introduction

In recent decades, the global financial system has undergone a profound transformation, shifting from a narrow focus on profitability toward a broader recognition of social, environmental, and governance responsibilities. Financial institutions are increasingly viewed not only as intermediaries for capital allocation but also as key actors in addressing global challenges such as poverty, inequality, and climate change. This paradigm shift aligns closely with the United Nations Sustainable Development Goals (SDGs), which emphasize inclusive economic growth, environmental stewardship, and social equity (Sugiharto & Hendratno, 2022). The integration of sustainability into banking practices represents a redefinition of success, where long-term value creation and social trust are prioritized alongside financial performance (Nawaz et al., 2023). Within this evolving landscape, Islamic banking occupies a unique position due to its foundational principles rooted in Shariah law, which prohibit interest (riba), excessive uncertainty (gharar), and unethical investments, while promoting fairness, risk-sharing, and asset-backed financing (El-Halaby & Hussainey, 2016).

While Islamic finance is theoretically aligned with sustainability, its practical effectiveness depends heavily on governance mechanisms that ensure both compliance with Shariah and responsiveness to modern economic challenges. Central to this governance system is the Shariah Supervisory Board (SSB), which plays a multifaceted role extending beyond mere contract approval. The SSB shapes product design, risk management policies, and institutional reputation, making it pivotal to the credibility and long-term stability of Islamic banks (Ismail et al., 2023). Four key dimensions of SSB governance independence, size, competence, and processes have been identified as critical in influencing financial and sustainability outcomes. Independence ensures decisions are free from managerial pressure; size determines diversity of expertise; competence enhances compliance and innovation; and structured processes improve transparency and efficiency. Collectively, these governance features are expected to strengthen both financial performance and sustainable growth in Islamic banks (Al-Ismail et al., 2023).

A multidimensional approach to sustainable financial performance is required to capture the true impact of Shariah governance. Beyond profitability, indicators such as management efficiency, shareholder returns, and market valuation are necessary to evaluate whether banks are creating long-term value and trust. Ownership structure further complicates this relationship. In Pakistan, for instance, many banks are dominated by insider ownership such as families or executives while institutional investors, including mutual funds and insurance companies, are increasingly active shareholders. These groups often pursue different objectives: insiders may prioritize short-term control and profit maximization, whereas institutional investors tend to demand transparency, accountability, and sustainable practices. The interaction between governance structures and ownership patterns is therefore critical in shaping sustainable performance outcomes (Murshed et al., 2022).

Pakistan provides a timely and relevant context for investigating these dynamics. The Islamic banking sector in the country has grown rapidly over the past decade, now accounting for more than one-fifth of total banking assets. This expansion has been supported by regulatory initiatives, such as the State Bank of Pakistan's revised Shariah Governance Framework (2024) and the Federal Shariat Court's ruling mandating the elimination of riba from the banking system by 2027. Simultaneously, customer demand for Shariah-compliant products has accelerated, making Islamic banking a cornerstone of Pakistan's financial system (Arab News, 2025 Profit Pakistan Today, 2024 Federal Shariat Court, 2022). However, despite this growth, empirical research on the relationship between Shariah governance, ownership structures, and sustainable performance in Pakistan remains scarce. Much of the existing literature focuses either on conventional corporate governance models or short-term financial measures, while neglecting multidimensional and Shariah-specific perspectives (Holbrook et al., 2019).

At the global level, sustainability challenges such as climate change, resource depletion, and social inequality continue to intensify, with reports like the World Economic Forum's Global Risks Report (2019) identifying sustainability-related risks as the most pressing threats to global stability (Jamaludin et al., 2025). Although international financial institutions, including the Islamic Development Bank, have pledged substantial resources toward the SDGs, the Islamic banking industry has been criticized for its slow and fragmented adoption of sustainability practices (Farley & Smith, 2020). In Pakistan, the absence of standardized Shariah-based sustainability indices and variations in governance practices exacerbate these challenges (Azeem et al., 2025). Thus, a critical gap persists in understanding whether and how Shariah governance mechanisms can meaningfully influence sustainable financial performance, and whether ownership structures act as enablers or barriers to this relationship (Raimi et al., 2025).

This study addresses that gap by providing an empirical investigation into the impact of Shariah governance and ownership structure on the sustainable financial performance of Islamic banks in Pakistan (Malik et al., 2021). By analyzing a ten year period with robust econometric methods, the research examines multiple governance dimensions, differentiates between insider and institutional ownership, and incorporates a multidimensional framework of sustainability (Awosusi et al., 2023). The findings are expected to contribute not only to academic knowledge but also to practical decision-making for regulators, investors, and bank management. Ultimately, this study aims to demonstrate how Islamic banking can fulfill its dual mission: upholding Shariah compliance while delivering sustainable and competitive financial services in an evolving global economy (Nazeri et al., 2023).

Research Questions

RQ1: How does Shariah governance influence the sustainable financial performance of Islamic banks in Pakistan, as measured by ROAA, ROAE, and Tobin's Q?
RQ2: How does insider ownership moderate the relationship between Shariah governance and the sustainable financial performance of Islamic banks?
RQ3: How does institutional ownership moderate the relationship between Shariah governance and the sustainable financial performance of Islamic banks?

Research Objectives

RO1: To investigate how Shariah governance affects the sustainable financial performance of Islamic banks in Pakistan, measured through ROAA, ROAE, and Tobin's Q.
RO2: To evaluate how insider ownership moderates the relationship between Shariah governance and the sustainable financial performance of Islamic banks.
RO3: To evaluate how institutional ownership moderates the relationship between Shariah governance and the sustainable financial performance of Islamic banks.

Literature Review

Theoretical Foundations

This study is grounded in Stakeholder Theory and Agency Theory, both of which highlight why governance structures are critical for achieving sustainable financial outcomes in Islamic banking. Stakeholder Theory suggests that banks must serve not only shareholders but also regulators, employees, customers, and society at large (Abd. Wahab et al., 2023). This aligns with the Maqasid al-Shariah, which emphasizes justice, fairness, and the avoidance of harm. Shariah Supervisory Boards act as custodians of these objectives, ensuring that financial practices comply with Islamic principles while supporting long-term development (Friedlingstein et al., 2020).

Agency Theory emphasizes conflicts of interest between owners and managers, arguing for governance mechanisms that align incentives and reduce agency costs (Franciosi, 2025). In Islamic banking, Shariah boards add a unique layer to this relationship by monitoring management not only for financial soundness but also for Shariah compliance. Effective governance, therefore, strengthens transparency, trust, and sustainability (Al-Faryan, 2024). Together, these theories justify examining how Shariah governance and ownership dynamics jointly influence sustainable financial performance.

Shariah Governance in Islamic Banking

Historical Development and Role of Shariah Boards

Shariah governance extends beyond conventional governance by integrating Islamic legal principles. Historically, its foundations lie in hisbah, an early Islamic system of market monitoring and social accountability. Today, this responsibility is institutionalized through Shariah Supervisory Boards (SSBs), which oversee compliance, issue fatwas, and safeguard stakeholders' ethical and financial interests (Grassa et al., 2025).

The responsibilities of SSBs include the prohibition of riba (interest), prevention of contractual uncertainty (gharar), calculation of zakat, and guidance on profit-and-loss sharing (Alam et al., 2022). By embedding these principles into banking practices, Shariah boards serve as both compliance authorities and strategic advisors (Ghapar, 2024).

Attributes of Shariah Governance

Prior studies identify four key attributes of SSBs: **independence, size, competence, and processes**.

- **Independence** enhances objectivity and credibility by preventing undue managerial influence. Independent boards increase confidence in Shariah rulings, although empirical findings on their financial impact remain mixed (Abiola-Adams et al., 2023).
- **Board size** may improve diversity and decision-making but can also lead to inefficiencies if excessively large. Evidence suggests its effect depends on institutional context (Jabin, 2025).
- **Competence** of members enables innovative Shariah-compliant solutions and effective risk management, though excessive alignment with management may undermine independence (Nasrudin Fajri et al., 2025).
- **Processes**, such as meeting frequency and documentation, foster transparency and timely rulings. Well-structured processes reduce compliance failures but remain underexplored in empirical literature (Nguyen et al., 2025).

These findings suggest that strong Shariah governance contributes to both ethical credibility and financial strength. Accordingly, this study hypothesizes:

H1: Shariah governance positively influences management efficiency (ROAA).
H2: Shariah governance positively influences shareholder profitability (ROAE).
H3: Shariah governance positively influences market valuation (Tobin's Q).

Sustainable Financial Performance in Banking

Sustainability in banking reflects the ability to achieve profitability while safeguarding environmental and social well-being. Evidence shows that global banks often fund carbon-intensive industries, raising concerns over their role in climate change. At the same time, sustainability reporting has increased significantly, with over 90% of large firms now disclosing environmental and social performance GA Institute (ESCAP, 2023).

For Islamic banks, Shariah governance enhances sustainability by requiring transparency, fairness, and compliance with ethical principles. This supports the rationale behind **H1–H3**, which link Shariah governance to financial sustainability through measures such as ROAA, ROAE, and Tobin's Q (Mohd et al., 2023).

Ownership Structure and Moderating Effects

Insider Ownership

Insider ownership, where managers or families hold significant stakes, can align interests by giving decision-makers a direct financial stake in performance (Busta et al., 2014). However, excessive concentration risks managerial entrenchment and reduced accountability (Jensen & Meckling, 2019). In Islamic banking, insiders could either reinforce Shariah governance or compromise it through undue influence over board decisions.

Thus, insider ownership is expected to moderate the governance performance link:

H4: Insider ownership moderates the relationship between Shariah governance and ROAA.
H5: Insider ownership moderates the relationship between Shariah governance and ROAE.
H6: Insider ownership moderates the relationship between Shariah governance and Tobin's Q.

Institutional Ownership

Institutional investors, such as pension funds and mutual funds, often demand stronger governance, transparency, and long-term stability (Glaeser et al., 2004). Their monitoring role can amplify the effectiveness of Shariah governance, ensuring compliance and improving performance (Buallay et al., 2020).

Accordingly, institutional ownership is expected to strengthen the governance performance relationship:

H7: Institutional ownership moderates the relationship between Shariah governance and ROAA.
H8: Institutional ownership moderates the relationship between Shariah governance and ROAE.
H9: Institutional ownership moderates the relationship between Shariah governance and Tobin's Q.

Evidence from Pakistan

Pakistan's Islamic banking sector has expanded rapidly, now representing over 21% of the total banking industry (State Bank of Pakistan, 2024). This growth reflects customer demand for Shariah-compliant services and supportive regulatory frameworks, including the Shariah Governance Framework and the Federal Shariat Court's ruling to eliminate riba by 2027.

However, governance practices remain uneven. Variations in SSB independence, size, and competence create inconsistencies across banks, while ownership structures differ in concentration and composition. Although prior research in Pakistan has examined Islamic finance products and conventional governance, little work has integrated Shariah governance attributes, ownership structures, and sustainability-driven performance outcomes (Amitrano et al., 2025). This makes Pakistan an important case to empirically test H1–H9.

Research Gap

The literature on Islamic banking has expanded significantly, yet important gaps remain. Most studies examine governance or ownership in isolation, rather than considering how they interact. Research on Shariah governance often emphasizes compliance or short-term financial outcomes, with limited attention to sustainability-related measures. Moreover, cross-country studies dominate the field, but their findings may not apply to Pakistan's unique regulatory and cultural context (Jarah et al., 2024). This study addresses these gaps by examining how Shariah governance attributes and ownership structures together influence sustainable financial performance in Pakistan's Islamic banking sector.

Conceptual Framework

Based on the reviewed literature and hypotheses (H1–H9), this study proposes a framework in which Shariah governance attributes (independence, size, competence, processes) directly affect sustainable financial performance (ROAA, ROAE, Tobin's Q). Insider and institutional ownership are modeled as moderators that shape the strength of these relationships (Nurrohmat et al., 2025). Grounded in Stakeholder Theory and Agency Theory, this framework reflects both the ethical and financial dimensions of Islamic banking governance.

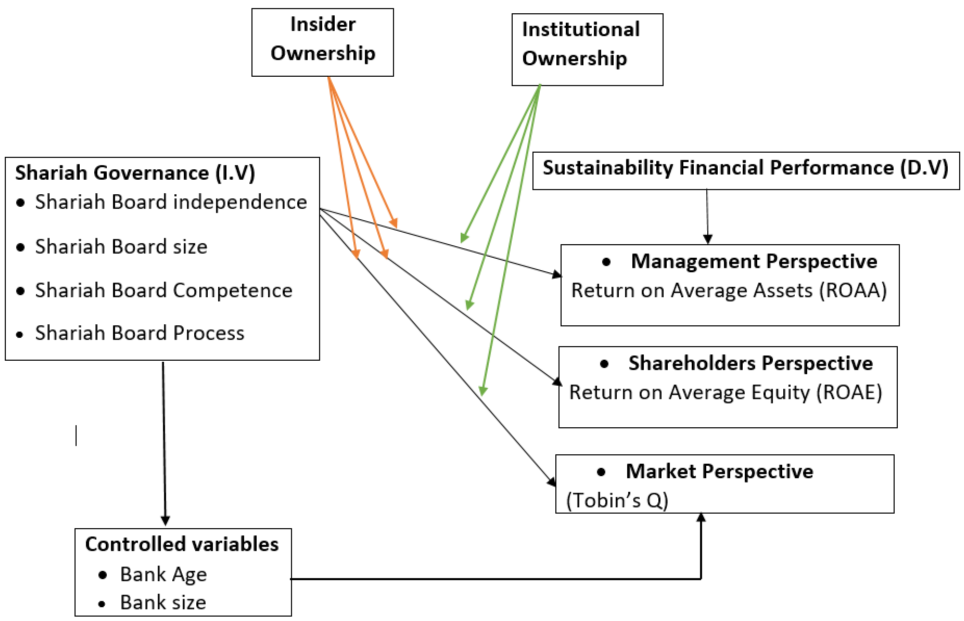

Figure No 1

Methodology

Research Design

This study adopts an explanatory research design, which is suitable for investigating cause-and-effect relationships among variables. While exploratory designs are useful when knowledge of the subject is limited and descriptive designs provide detailed portrayals of phenomena, explanatory research focuses on identifying the determinants of specific outcomes (Henseler, 2018). As the objective of this study is to examine how Shariah governance influences sustainable financial performance and whether ownership structures moderate this relationship, the explanatory design is most appropriate (Zaghmout, 2022).

Research Philosophy

The study is guided by the positivist philosophy, which emphasizes objective measurement and generalizable findings (Liamputtong, 2013). Positivism supports the use of quantitative data and statistical techniques to test hypotheses and explain causal relationships. This philosophy aligns with the present study, which relies on secondary data and applies econometric models to establish objective relationships among variables.

Research Approach

A deductive approach is adopted, as it allows testing hypotheses derived from established theories such as Stakeholder Theory and Agency Theory (Dao & Phan, 2023). The study begins with predefined hypotheses on the relationship between Shariah governance, ownership structures, and sustainable financial performance. Using financial and non-financial data from 22 Islamic banks in Pakistan between 2014 and 2023, the deductive approach enables the researcher to validate these assumptions empirically (Perera et al., 2022).

Research Strategy

Archival research serves as the main strategy, utilizing secondary data from annual reports of Islamic banks in Pakistan. Archival methods are suitable when reliable historical records exist, providing a longitudinal perspective without researcher interference (Kipping & Üsdiken, 2014). This approach ensures transparency, replicability, and consistency in data collection.

Time Horizon

The study adopts a longitudinal time horizon, as it examines data over a ten-year period (2014–2023). This design enables the analysis of temporal changes and trends in Shariah governance and sustainable financial performance (Mohd Zain et al., 2025).

Population and Sample

The population consists of all banks operating in Pakistan, including full-fledged Islamic banks and conventional banks offering Islamic windows. Of the 34 banks in operation, 22 provide Islamic banking services, and these form the sample of this study. As the study covers all Islamic banks in Pakistan, the sample is population-based, ensuring comprehensive representation.

Data Collection

Secondary data were extracted from annual reports of Islamic banks in Pakistan for the years 2014–2023. Sustainability-related information was captured using a weighted content analysis technique, which evaluates the extent of disclosure based on standardized scoring methods (Beattie et al., 2004).

Measurement of Variables

The variables of this study include sustainable financial performance as the dependent variable, Shariah governance attributes as independent variables, ownership structure as moderating variables, and bank age and size as control variables.

Table No 1: Measurement of scale

Dimension	Variables	Symbols	Measurement	Sources
Sustainable Financial Performance	ROAA, ROAE, Tobin's Q	SFP	Weighted Content Analysis disclosure index (0 = not disclosed, 1 = partial, 2 = full)	(Beattie et al., 2004)
Shariah Governance Attributes	Board Independence	SBI	Number of independent Shariah board members	(Gull et al., 2023)
	Board Size	SBS	Total number of Shariah scholars	(Khan et al., 2024)
	Board	SBC	% of members with PhDs and ≥1	(Mnif & Tahari,

	Competence		year experience	2021)
	Board Process	SBP	Number of Shariah board meetings per year	(Aly et al., 2018)
Ownership Structure	Insider Ownership	IDOWN	Shares held by insiders ÷ total ordinary shares	(Alshubiri & Al Ani, 2023)
	Institutional Ownership	ISOWN	Shares held by institutions ÷ total ordinary shares	(Jensen & Meckling, 2019)
Control Variables	Bank Age	BAGE	Log of years since bank's inception	(La Porta et al., 2000)
	Bank Size	BSIZE	Log of total assets	(Molla et al., 2023)

Data Analysis

Panel regression analysis is employed to test the hypotheses. This technique is appropriate for longitudinal data, as it controls for unobserved heterogeneity across banks and over time (Gillan et al., 2003). Both fixed effects and random effects models are estimated, and the Hausman test is applied to select the appropriate specification (Hsiao et al., 2015). Robustness checks include variance inflation factors (to test multicollinearity), Breusch-Pagan tests (for heteroskedasticity), and serial correlation diagnostics.

The regression equations are structured as follows:

1) **Direct effect models**:
   i. ROAA = α + β1SG + β2BAGE + β3BSIZE + ε
   ii. ROAE = α + β1SG + β2BAGE + β3BSIZE + ε
   iii. Tobin's Q = α + β1SG + β2BAGE + β3BSIZE + ε

2) **Moderation models (Institutional Ownership)**:
   i. ROAA = α + β1SG + β2ISOWN + β3(SG × ISOWN) + β4BAGE + β5BSIZE + ε
   ii. ROAE = α + β1SG + β2ISOWN + β3(SG × ISOWN) + β4BAGE + β5BSIZE + ε
   iii. Tobin's Q = α + β1SG + β2ISOWN + β3(SG × ISOWN) + β4BAGE + β5BSIZE + ε

3) **Moderation models (Insider Ownership)**:
   i. ROAA = α + β1SG + β2IDOWN + β3(SG × IDOWN) + β4BAGE + β5BSIZE + ε
   ii. ROAE = α + β1SG + β2IDOWN + β3(SG × IDOWN) + β4BAGE + β5BSIZE + ε
   iii. Tobin's Q = α + β1SG + β2IDOWN + β3(SG × IDOWN) + β4BAGE + β5BSIZE + ε

Ethical Considerations

This study uses secondary data obtained from publicly available annual reports and regulatory publications. Therefore, no direct interaction with human subjects was involved, and no confidential or sensitive data were accessed. The research adheres to academic integrity standards, ensuring that all sources are properly cited, and complies with ethical guidelines for secondary data analysis (Wooldridge, 2021).

Results and Discussion (Condensed for Research Paper)

Descriptive Statistics

The descriptive statistics reveal that Tobin's Q averages 0.82 (suggesting undervaluation), while the mean ROAE is 21% and ROAA stands at around 1%. This indicates reasonable shareholder returns but modest operational profitability. Bank age averages 13 years, and insider ownership remains negligible, while institutional ownership is more prominent. Shariah governance indicators show little variation across banks.

Table No2 :Descriptive Statistics

Variable	Mean	Min	Max	Std. Dev.
Tobin's Q (MP)	0.82	0.11	2.01	0.57
ROAE	0.21	-0.38	1.14	0.21
ROAA	0.01	-0.05	0.11	0.018
Bank Age (years)	13.23	3	33	–
Bank Size (log assets)	17.48	–	–	2.30
Insider Ownership	-0.00082	≈0	–	–
Institutional Ownership	1.37	0.79	7.02	–
SG Index	≈0	–	–	

Correlation Analysis

The correlation matrix shows weak to moderate associations among variables. Tobin's Q correlates negatively with bank size (-0.21) and insider ownership (-0.11). ROAE shows a positive link with insider ownership (0.44), suggesting alignment of managerial incentives with equity holders. The SG Index is positively linked to ROAA (0.18) but negatively to Tobin's Q (-0.06). All coefficients are below the 0.8 threshold, indicating no multicollinearity concerns.

Granger Causality Results

The Granger causality analysis reveals that bank age significantly predicts ROAE ($p = 0.0004$), underscoring the role of institutional maturity in driving shareholder returns. Additionally, SGI_ISO significantly predicts SG Index ($p = 0.0116$), highlighting the leading role of Shariah governance in shaping institutional outcomes. No significant causality was found between ROAE and ROAA, or between Tobin's Q and ROAA.

Table No 3

Causal Direction	p-value	Interpretation
Bank Age → ROAE	0.0004	Significant maturity predicts shareholder returns
SGI_ISO → SG Index	0.0116	Significant governance standards drive overall governance
ROAE ↔ ROAA	>0.05	Not significant independent evolution
Tobin's Q ↔ ROAA	>0.05	Not significant no predictive link

ARDL Long-Run and Short-Run Dynamics

The ARDL models show that ownership structures and Shariah governance have important implications for bank performance. In the market perspective, Tobin's Q is negatively influenced by bank size, insider ownership, and SGI_ISO. For management efficiency (ROAA), no long-run effects were significant, but the adjustment to equilibrium is strong. Shareholder returns (ROAE) are significantly reduced by bank size and SGI_ISO, with very rapid adjustment dynamics (101%).

Table No 4

Perspective	Significant Long-Run Variables	ECM Significance	Adjustment Speed
Market (Tobin's Q)	Bank Size (–), Insider Own (–), SGI_ISO (–)	Yes (p<0.01)	82%
Management (ROAA)	None	Yes (p<0.01)	62%
Shareholder (ROAE)	Bank Size (–), SGI_ISO (–)	Yes (p<0.01)	101%

Diagnostic Tests

Diagnostic tests reveal mixed results across models. The profitability model suffers from heteroskedasticity and serial correlation, while the market model shows signs of misspecification. Both models exhibit non-normal residuals. Despite these limitations, the ARDL specifications are generally robust, though robust estimators or bootstrapping are recommended for improved inference.

Table No 5

Test	Result	Implication
Heteroskedasticity	Present (Profitability model) Absent (Market model)	Use robust SEs
Serial Correlation	Present (Profitability model) Absent (Market model)	Consider AR terms/robust SEs
RESET Test	Correct (Profitability) Misspecified (Market)	Functional form concerns for market model
Normality (JB Test)	Not normal (both models)	Inference may require bootstrap methods

Discussion and Implications

Theoretical Interpretation of Findings

This study set out to examine how Shariah governance influences the sustainable financial performance (SFP) of Islamic banks in Pakistan, with insider and institutional ownership as moderating factors. Drawing on Agency Theory (Clark et al., 2021), Stakeholder Theory (Jensen & Meckling, 2019), and Institutional Theory (Freeman & Phillips, 2002), the findings offer nuanced support for the theoretical framework.

The results confirmed that Shariah governance plays a critical role in shaping financial outcomes, particularly in terms of management efficiency (ROAA) and shareholder returns (ROAE). This supports the assumption that governance mechanisms reduce agency costs, improve transparency, and enhance the alignment of managerial decisions with stakeholder interests. However, the weaker and sometimes negative link with market valuation (Tobin's Q) suggests that markets in Pakistan may undervalue governance quality, consistent with literature highlighting the limited role of external monitoring in emerging economies (Greenwood & Meyer, 2008).

Insider ownership demonstrated mixed effects. Its positive link with ROAE supports the idea that managerial stakes can align incentives with shareholders, consistent with the alignment hypothesis of Agency Theory. At the same time, the negative association with Tobin's Q underscores the entrenchment problem, where excessive insider control reduces market confidence. This dual effect illustrates that insider ownership acts as a double edged sword, both reducing and reinforcing agency costs depending on the performance dimension considered.

Institutional ownership emerged as a more stable and constructive force. By strengthening monitoring and accountability, institutional investors enhanced the governance performance relationship, echoing findings in the broader corporate governance literature (Katmon et al., 2019). This confirms that institutional investors can act as effective external monitors, pushing banks toward long-term sustainability and compliance with Shariah principles.

Finally, the Granger causality tests highlighted that bank age predicts shareholder returns, emphasizing the importance of institutional maturity and reputation in building trust and reducing risk perceptions. Additionally, Shariah governance indicators were shown to predict overall governance quality, affirming their central role in shaping institutional frameworks. Together, these findings reinforce the notion that sustainable performance in Islamic banks is driven less by short-term profitability and more by structural, reputational, and governance-related factors.

Contribution to Literature

This study advances several streams of research. First, it extends Stakeholder Theory by demonstrating that Shariah governance mechanisms are not limited to compliance but serve as practical tools for aligning banks with depositor, investor, and community interests. Second, it adds depth to Agency Theory by illustrating how ownership concentration moderates the effectiveness of governance, sometimes strengthening and sometimes weakening financial sustainability. Third, by focusing on Pakistan a context often overlooked in comparative governance research it contributes to the emerging markets literature, showing how governance dynamics differ from GCC and Southeast Asian contexts. Finally, by integrating multi-dimensional measures of sustainability (ROAA, ROAE, Tobin's Q), it offers a more comprehensive view of Islamic bank performance than studies relying on single indicators.

Practical Implications for Banking and Regulation

From a practical perspective, the findings carry important implications for banks, regulators, and investors:

1. **For Banks**: Strengthening Shariah Supervisory Boards by ensuring independence, competence, and robust processes is critical for improving compliance and operational performance. Banks should also manage insider ownership carefully, as excessive concentration risks eroding market trust.
2. **For Regulators**: The State Bank of Pakistan should continue harmonizing Shariah governance standards and actively monitor ownership structures. Encouraging institutional investors to play a more active role can reinforce accountability and sustainability.
3. **For Investors and Stakeholders**: Institutional investors, depositors, and communities can use governance disclosures to assess bank credibility. Their active engagement can create pressure for banks to move beyond symbolic compliance toward genuine Shariah governance.

These implications are particularly timely as Pakistan transitions toward a fully interest-free banking system by 2027. Ensuring that governance frameworks are substantive rather than symbolic will be essential for building investor confidence and achieving long-term sustainability.

Limitations and Directions for Future Research

Despite its contributions, the study has limitations. It focused only on Pakistan, limiting generalizability to other contexts. The reliance on secondary data meant that qualitative dimensions of governance, such as boardroom dynamics, could not be captured. Moreover, sustainability was assessed only through financial indicators, excluding environmental and social performance metrics that are integral to the broader goals of Islamic finance.

Future research could address these gaps by:

- Conducting cross-country comparative studies (e.g., GCC, Malaysia, Indonesia) to capture institutional differences.
- Incorporating qualitative methods such as interviews to understand Shariah Supervisory Board dynamics.
- Expanding sustainability measures to include ESG indicators or Maqasid al-Shariah frameworks.
- Exploring the role of fintech and digital banking innovations in shaping governance and performance.
- Assessing the impact of regulatory reforms such as SBP's revised Shariah Governance Framework on actual bank practices.

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