

**THE EFFECT OF CEO'S ATTRIBUTES AND ZAKAT ON
THE PERFORMANCE OF ISLAMIC BANKS:
A SHORT COMMENTARY**

Monica Violeta ACHIM
**Babeş-Bolyai University, Faculty of Economics and Business
Administration, Cluj-Napoca, Romania**

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Abstract

The purpose of this commentary is to highlight the main results of the work of Neifar and Aissa (2022), the strong points but also suggestions that should be considered for future research. The work of Neifar and Aissa (2022) reveals that CEO duality and education have a positive influence on Islamic bank performance while the foreign CEOs are found to negatively influence performance. The results show that Zakat has a positive impact on the performance of Islamic banks. The paper highlights the best practices theories of corporate governance in order to boost bank performance.

COMMENTARY

This work examines the impact of corporate governance measured by different CEO patterns and Zakat on the performance of Islamic banks in the MENA region and Malaysia. The sample consists in 126-year observations of 42 Islamic banks from MENA countries and Malaysia over the period of 2017-2019. The

generalized least square (GLS) panel regression was applied. Studying the impact of corporate governance on entity performance is not new, but still a hot topic in the literature.

When the authors refer to CEO attributes they examine tenure, nationality, duality and education level. On the other hand, they refer to the impact of Zakat, as the most important CSR pattern for Islam's companies. CEO Duality refers to the responsibility of a CEO to be both a firm's CEO and board chair. The literature review used in this paper includes one study that gives the pros and cons, referring to the positive impact of CEO duality on the performance of the entity. However, the authors should have added many references here. Regarding the foreign CEO and the impact of its pattern on the firm's performance, the authors summarized very well various research that have examined the impact of CEO nationality on financial performance of the company. It was highlighted that foreign executives commonly have a low presence role, which results in playing a weak monitoring role. Moreover, various barriers of culture and language may hamper the efficiency of the CEO. Thus, the expected hypothesis is that a foreign CEO negatively affects Islamic banking performance.

When we talk about CEO tenure, there is a large debate regarding the existence of a positive impact of a long tenure on firm performance. The authors reveal the importance of corporate governance theories, namely agency theory, stewardship theory and resource dependency for helping or hampering the efficiency of the entity. The final expected hypotheses put by the authors is that CEO tenure positively affects Islamic bank performance.

Apart from the CEO patterns, the authors include the role of Zakat on bank performance. Zakat is a charity that God obligates Muslims to pay yearly on their money and property (www.zakat.org). It is a mandatory charitable contribution, often considered to be a tax. However, the authors did not define what Zakat is, while this is common only for a very small segment of most societies, namely for Muslims. Even though the importance of Zakat is described as being a determinant for the performance of an entity, putting together both the attributes of the CEO and Zakat are

somehow forced, while attributes of the CEO and Zakat are two separate issues.

The general approach is that zakat's contribution represents a pillar on CSR performance, and there is much evidence that reflect the impact of CSR on financial performance. The hypothesis formulated by the authors is that Zakat positively affects the financial performance of Islamic banks.

The methodology refers to a final sample of 42 listed Islamic financial banks in MENA Countries and Malaysia for a three-year period from 2017 to 2019.

The performance of a bank is determined alternately using ROA for the main results, and ROE for robustness checks. The presentation of variables from table 2 and the expected signs are very welcome for making the article understandable. However, the expected sign of CEO duality appears in table 2 as being different from the presentation of hypothesis 1, than the empirical analysis used the OLS, panel regression and General Last Square (GLS). Before running regressions, they conducted all the required tests for checking the normality of residuals, heteroscedasticity, and autocorrelation problems, before the application of panel data in our regression. Also using robustness checks is highly appreciated in order to substantiate the results.

The results provide evidence that CEO duality and education positively influences Islamic bank performance while the foreign CEOs are found to reduce the efficiency of the CEO activity. Thus, performance is reduced. In addition, the results show that Zakat positively impacts the performance of Islamic banks.

The authors mention some limits of the present paper. More types of robustness checks and more performance indicators for banks (such as nonperforming loans, capital adequacy, Net Interest Margin -NIM etc.) would improve the robustness of the results.

REFERENCES

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