Corporate Governance and Profitability of Islamic Banks Operating in Pakistan
Aimen Ghaffar (Corresponding Author)
Department of Management Sciences, Abbasia Campus,
The Islamia University of Bahawalpur, Punjab, Pakistan.

Abstract
This study has been conducted to see the impact of corporate governance practices on the profitability of Islamic banks. Although, much research has been done on corporate governance but a small amount of it is related to Islamic banking in Pakistan. The main objective of this study is to identify the impact of corporate governance on the profitability of Islamic banks of Pakistan. The corporate governance policies or elements tested here include the board size and board independence. The profitability of these banks has been measured on the basis of profitability ratios of these banks. The profitability ratios used are return on assets (ROA) and return on equity (ROE). The sample used for the study was Islamic banks of Pakistan. Data was analyzed by using regression analysis. The findings of the study revealed that all these variables of corporate governance have a significant relationship with the profitability of the banks. The profitability of Islamic banks of Pakistan tends to increase with the adoption of good corporate governance practices. Corporate governance should be adopted by all the banks so as to have greater profitability and the government should encourage good corporate governance practices in all sectors. This research was limited in terms of time constraints and different approach to corporate governance practices by each bank. More awareness related to corporate governance should be brought to the employees of the banks by giving them training about components enhancing corporate governance. In this way, by acting on the policies of corporate governance, the profitability of Islamic banks can be increased.

Key Words: Corporate governance, board size, board independence, profitability

INTRODUCTION
Awareness regarding the concept of corporate governance was generated after the scandals of WorldCom and Enron but it cannot be assumed that the corporate governance concept is new. Its need was started when the management and ownership of corporation was separated. A number of high profile failures in 2001 and onwards have brought an improved focus of good corporate governance, which has brought the topic to a wider discussion. Before exploring further, the concept of corporate governance should be defined. There is a huge amount of literature available on this topic which ensures the presence of countless definitions of the topic. So, to look at the subject impartially confined but wide ranging definitions are given. So, to get a fair view on the subject it would be wise to give a narrow as well as a wide-ranging definition of corporate governance.

Corporate governance implies the relation between the management, board of directors, shareholders and stakeholders of the company. It includes the rules that provide the procedure to be followed through which the objectives for the company are set. By following the rules set by corporate governance mechanism, the objectives of the company are attained and profitability is monitored. So, the basic features of good corporate governance include clear corporate structures, simple procedures and the responsibility of managers and board of directors towards stakeholders.
Corporate governance refers to the organizations which include the rules and regulations and the business procedures which can direct the relationship between stakeholders and managers (Oman, 2001). The chief objective of corporate governance is to protect the rights of all stakeholders. To ensure this, quick decision making is required. The decisions should be communicated to the concerned in a timely manner. In this way, investors can have more confidence in the company. Greater confidence results in higher growth and profits. Stakeholders enter into the firms which are renowned for their good governance structures. Investors pay higher to the firms which strictly obey the norms of corporate governance. The risk is reduced and ultimately cost of capital and agency costs are reduced.

Corporate governance is more significant for rising and developing countries like Pakistan. Corporate governance is rapidly developing in Pakistan. The Code of Corporate Governance in Pakistan was circulated in March 2002 for the first time. The state bank of Pakistan, in 2002, launched a project for developing the Pakistan institute of corporate governance. The vision was to encourage sound and effective corporate governance in the Pakistani corporate sector. The intention behind the project was based on the fact that investor confidence in the economy is dependent on the quality of corporate governance of institutions.

Banks are an essential part in any economy. Financing services to the commercial enterprises and to the broad segment of population are provided by the banks. They are the credit providers and help to access payments. So, inefficient banking system will lead to financial problems and lower economic growth. In order to be protected from this inefficiency, the banks are required to govern effectively. In this way their profitability can be enhanced.

The purpose of this research is to study the influence of corporate governance on the profitability of Islamic banks of Pakistan. This study was aimed to find that either corporate governance has any impact on the profitability of banks or not. This research thus proves to be key advancement in the literature of corporate governance and banking sector as it has shown the impact of corporate governance on the profitability of the Islamic banks operating in Pakistan.

LITERATURE REVIEW
Corporate Governance
Extensive literature is available on corporate governance which confirms the presence of several definitions of corporate governance. To deeply understand the topic it would be practical to give a comprehensive definition of corporate governance. Good corporate governance provides gateway to competitive advantage and it is significant to economic and social progress. (Iskander and Chamlou, 2000) Numerous definitions have been presented but still here is no universally agreed definition for the term corporate governance. (Anandarajah, 2004)

Corporate governance holds the balance between economic, social and individual goals. The structure of governance is present to use the resources efficiently. Corporate governance aims to align the interests of corporations with individuals and society. For the corporations, the motivation is to achieve the desired objectives and gain investment. When considered for state,
the economy is strengthened and fraud and mismanagement is discouraged. Good practices of corporate governance are linked with well performing, competitive finance markets, and protection for outside investors. These outside investors influence the behavior of directors and managers. Poor corporate governance practices, on the other hand, usually include insufficient disclosure, weak minority shareholder rights and lack of independent oversight. (Anandarajah, 2004)

The Asian Development Bank says that corporate governance is the way in which power is used in the management of a country’s resources for development. (Wescott, 2000) Corporate governance constitutes the rules and rights, laws, structures and controlling methods which are set up for the management of a company. The objective behind this is to safeguard the benefits of the stakeholders. (Nielsen, 2000) Corporate governance is an indirect mechanism which reduces the agency and transaction costs which are incurred by the managers when they act in their own interests instead of working for the benefits of company and its shareholders. (Kidd and Richter, 2003)

It is the system of checks and balances. It has the aim to control and monitor the management of the company. (Solomon and Solomon, 2004) The corporate governance mechanism indicates that how responsibilities and rights should be distributed in the company. It explains the rules and procedures which should be followed for proper decision making. (Clarke, 2004)

Indication of corporate governance in banks seems easier than it actually is. Much research is done on corporate governance, but very little of it relates to the behavior of owners, directors and managers of the banks. From 1980 to 1997, three fourth countries of the International Monetary Fund (IMF) have encountered important problems related to their banks. (Lindgren, Garcia, Saal; 1996) Banks are generally more obscure than non-financial firms and due to this reason the government interfere more in the banking industry. (Levine, 2004) 95 percent of the financial sector of Pakistan is represented by banks. Thus their good condition is crucial to make certain the development and constant economic growth in Pakistan. (Hussain, 2004)

Cornett, Gou, Tehranian (2005) is of the view that the profitability of privately owned banks has been affected by corporate governance.

**Board Size**

The argument about boards and their structures have accumulated attention from both scholars and media during the last decades. Lipton and Lorch (1992) and Jensen (1993) have done the earliest literature on board size. An effective board is crucial to the success of a company and that the board is the link between managers and investors. (Mallin, 2004)

Number of directors present in a board is referred as the board size. The board size varies in different countries, corporations and banks due to different culture, rules and ownership structure. There are many different theories on how a board should be composed to be as efficient as possible. This is why the subject of board diversity has been frequently discussed among firms and scholars for a long period of time. Millikem, F. J. & Martins, L. (1996) refer to a board as a
mixture of human capital where every board member has a certain skill set and on a personal level acquires more expertise and knowledge through further education and experiences.

The determinants of board structure were analyzed and it was found that there are three important components of board structure. These measures or components are board size, independence of board and leadership of board. Linck, Netter and Yang (2008) The size of the board is another question of debate. Boards of small firms should include three members, the medium sized firms should include five members and large firms should include eight members. He says that the groups including more than eight members are difficult to manage and the risk for sub-groups to emerge increases. However, the number of people in the board is only a number and other factors such as roles and social characteristics are of more importance. Hilb (2005)

Board structure points out the managerial team and competitive environment of a firm. If a board has too many members than agency problems can arise because some directors may become free-riders. (Boone et al.; 2007). A smaller board of directors will take the responsibility for monitoring a company’s operations more than a larger board of directors. (Vaefas, 2000).

The central task for a board is to work for the interest of all shareholders and ensure the continued existence of the firm. Members of the board are representatives of interest groups and these are different depending on ownership condition. (Hilb, 2005) Smaller boards have proved to be more effective to enhance the value of a firm. If there are few directors in a firm, they will exert more effort because there will be only few people to monitor the firm and the level of responsibility on each will be increased. Kim and Nofsinger (2007)

Larger boards are less effective than smaller boards. This is because larger board has many members, some of which can tag along as free riders and thus agency problems can be generated. Hermalin and Weisbach (2003)

A negative relationship is seen between board size and firm performance by examining the literature available from the study of John and Senbet (1998) they say that with the addition of more directors, a board can monitor more effectively but the benefit may be offset because of the communication problems in larger groups and the decision making process. A larger board size has lesser capability to take control of the management which leads to separation of control and management and thus agency problems are raised. The problem of coordination prevails over the advantages of larger board Lipton and Lorsch (1992) and (Jensen, 1993)

The recommended number of directors present in any board should be seven or eight, because directors more than this would cause trouble for the CEO to control them. It is a time consuming process to express opinion in larger boards thus resulting in incohesiveness. When a board has many directors, it does not fulfill its proposed function but instead moves into a more symbolic role. (Hermalin and Weisback, 2003)

The literature on board size explains that to ensure the effectiveness of supervision, it is not enough to just increase the board size. Advantages exist in small as well as large boards. Many empirical studies are conducted to see the relationship between board size and firm performance. The results are more in favor of smaller boards because they have better firm performance. Large
boards have the advantage of external links and associations. Very small boards do not have the spread of expert advice and more opinions as present in larger boards. Larger boards have diversity in terms of skills, experience, nationality and gender. (Dalton, 1999) and (Dalton and Dalton, 2005)

A positive impact on performance is also found with larger board size. (Mak and Li, 2001) and (Adams and Mehra, 2005) Empirical research suggests negative linkage between board size and performance of firm. While a meta-analysis by Dalton and Dalton (2005) has found positive correlation.

When we consider the banking sector, we see that boards with too many members will bring problems of coordination, control and flexibility in the decision making process. According to the studies of Eisenberg, Sundgren, Wells., (1998); Yermack, (1996); Fernández, Gomez., (1997), we can see that large boards sometimes gives more control to the CEO which can bring efficiency. So, according to them, the effect of board size on banks is a swap between advantages of advising and monitoring and the disadvantages of control, coordination and flexibility in the process of decision making.

The central conclusion of Adams and Mehran (2003) study is that corporate governance mechanisms are industry specific. They thus document systematic differences in board makeup, board size, CEO ownership and compensation structure, and block ownership between manufacturing and banking firms. For example, Adams and Mehran (2003) find that on an average bank holding company boards are larger than manufacturing firms. They also say that board composition is not considerably related with bank’s profitability. For banks, there is no negative board size effect. Adams and Mehran (2008) This is consistent with the findings in Coles, Daniel and Naveen (2008) that corporate governance mechanisms are industry specific.

Mohamed (2009) found a different result in his empirical study as compared to previous studies. He observed the relationship between board size and firm profitability in banking sector. The sample consisted of 174 banks. Unexpectedly, the result found between the relationship of board size and firm profitability was positive. So, it suggested an exception from the common thinking of smaller boards to be more positively related with profitability. Board size is positively related to profitability in the banking sector. (Mohamed, 2009)

**Board Independence**

Boards of directors consist of two types of directors; insiders and outsiders. There is still confusion that to achieve optimal board composition, how much percentage of each type of director should be present. Corporate board is the apex of internal corporate governance mechanism. (Brennan; 2006) Board of directors has the duty to monitor the management and take care of their rights on behalf of shareholders. (Jensen and Mecking, 1976)

Outside directors are those who work in other firms also and have other responsibilities as well. Inside directors provide information and the outside directors provide their expertise to evaluate the decisions of managers. The outside directors are independent and are not aligned with
management. Their only tie to the firm is their directorship. Non-executive directors are also called as ‘non-employees’ or outside directors (Mace, 1986).

Non-executive directors (NEDs) contribute to effective governance by carrying out control over the manager’s decisions. They thus check and balance the decisions and increase effectiveness. Non-executive directors increase the variety of skills and knowledge of the directors (Abdullah, 2004) If the board is composed of majority of outside directors, the agency cost can be reduced. Board independence is important because non executive directors are true monitors and they improve the firm profitability and discipline the management. (Duchin et al., 2010; Weishbach, 1988; Fama and Jensen, 1983)

Non executive directors are financially independent of management and are not involved in any conflicting situations and thus they alleviate agency problems and reduce the self interest of managers. By doing this, the interest of shareholders is protected. They can perform monitoring and control in a better way and the firm’s resources are arranged in a way which leads to better profitability. (Rhodes et al., 2000)

Much research has been done to find evidence on the effectiveness of independent director on firm performance. The results obtained are varied. Some says that non-executive directors protect the interests of shareholders when there is an agency problem. Several researchers have found a positive correlation between firm performance and non-executive directors. Economic performance of the firm can be increased with the presence of more outside directors. Baysinger and Butler (1985), Brickley et al. (1994) and Daily and Dalton (1992) Several other studies also point out a positive impact of appointing independent directors on the board. There is less likelihood of financial statement fraud in the presence of independent directors. (Beasley, 1996)

Several other studies found no effect or a negative effect of presence of non executive directors on the performance. Outside directors and profitability of the firm are not related to one another. (Fernandes, 2005; Dalton and Daily, 1999; Dalton et al., 1998; Baysinger and Butler, 1985) Studies have shown existence of an inverse relation between the proportion of non executive directors and firm value. A negative relationship is attained between the number of independent directors on board and the performance of the firm. (Agrawal and Knoeber ,1996; Bhagat and Black, 2002)

There is a positive relationship between number of outside directors on a board and firm performance. (Ehikioya, 2009 ; Uadiale 2010) A significant positive correlation is found between firm value with outside directors in Indian context. (Jackling and Johl, 2009) The presence of outside directors on the board is not related to the performance of the firm. (Ghosh, 2006; Kota and Tomar, 2010) Independent-outside directors monitor the activities of the manager in a more effective and thus the board will be more effective.. (Fama & Jensen, 1983)

Agency theory suggests that more independent directors should be present on a board with a view to generate effective monitoring of executives. Stewardship theory suggests that the board should be have more inside members with a view to take effective decisions because inside board members have better information about the firm than outsiders. (Ramdani & Witteloostuijn, 2010, p. 608)
Fama & Jenson (1983) argued on the reasons for which non-executive directors would have sufficient incentives to monitor top management. First, they want to signal their managerial skills and competencies to the external labor market. The non-executive managers who are not able to monitor top management effectively will suffer and their probability of future employment might decrease. Secondly, non-executive directors normally have a great deal of skills to take decisions so as to control the proceedings of top management. The external directors are expected to be the representative of the shareholders and they resolve the conflicts among senior directors.

If the proportion of outsiders on a board is high, there is more chance that the board will replace its CEO when there is a poor performance period. (Weisbach, 1988) A positive effect on the firm performance is seen as a result of having more outside directors on the board. (Choi et al.; 2007) The presence of outside directors on boards improved competitiveness of the corporation and new strategic outlook can be formed for the corporations. (Abor and Adjasi, 2007)

Non Executive Directors have a positive impact on firm performance when evaluated by return on assets (ROA) and return on equity (ROE). Awan (2012)

When it comes to banks, it is mostly seen in research that there are more potential disadvantages in the presence of independent directors on boards in financial corporations compared to nonfinancial corporations. Banks are complex institutions which require directors to have extensive expertise within the financial field (Adams, 2009). According to Adams (2009), independent directors on boards of banks are rarely members of other boards of financial institutions because of potential conflicts of interest can be raised. The consequence of this is that independent directors of boards in banks tend to lack the financial expertise and the in-depth knowledge that is needed to understand the complexity of the banking industry and to effectively monitor the management’s work. These findings show that a large representation of independent directors on boards in banks in many cases may be inefficient due to the lack of experience of the directors. A study performed by Adams (2009) demonstrates the potential disadvantages with having independent directors on the boards in banks. (Adams, 2009).

Other research that further supports this is another study conducted by Erkens (2010), which found that financial institutions with more independent boards performed worse during the crisis 2007-2009 than institutions with less independent directors represented. The results of Erken’s study indicate that independent directors on corporate boards might not always be beneficial for all corporations, especially not for the ones in the financial industry (Erkens, 2010).

**Corporate Governance and Firm Profitability**

The fundamental feature which should be present in any entity to call it a business is that it should have an intention to earn profit. Different studies have been published which show that there is a strong linkage between corporate governance and profitability. This study also finds out the impact of corporate governance on the profitability of the banks.

Mehdi (2007) carried out a research to note the correlation between corporate governance and profitability of firms. A positive relation is found by him. Sen (2001) did a research to see the
correlation between corporate governance and firm’s profitability. Profitability was affected by governance mechanisms.

**Theoretical Framework**

![Diagram](image)

**RESEARCH OBJECTIVES**
Following are the major objectives of the study:
Main objective
The main objective of this study is to identify the impact of corporate governance on the profitability of Islamic banks of Pakistan.
Sub objectives include:
1. To discover the impact of board size on corporate governance and relate it to the bank’s profitability.
2. To study the influence of board independence on corporate governance and its result on profitability of the bank.

**DEPENDENT AND INDEPENDENT VARIABLES**
The independent variable is corporate governance which uses two measures or components which are board size and board independence. The dependent variable is profitability which is evaluated through two components; return on assets (ROA) and return on equity (ROE).

**RESEARCH HYPOTHESES**
The hypotheses obtained after the literature review are presented as follows:

**H1**: There is a significant relationship between Board size and the Profitability of Islamic banks.

**H2**: There is a significant relationship between Board Independency and the Profitability of Islamic banks.
RESEARCH METHODOLOGY
The study is of causal nature. Hypotheses are tested through descriptive research design.

Population and Sampling

Population
Population is the collection of all members or entities about which the researcher is interested to draw the conclusions (Huysamen, 1994). The researcher should clearly identify the population before selecting sample size Wilson (2010). The population of this study is formed by Islamic banks in Punjab, Pakistan.

Sampling
Sample is that part of population from which the data is actually collected (Moore; 2009). The sample was selected on the basis of convenience sampling technique. This was done on the basis of corporate governance data available. On convenient base five Islamic banks were selected i.e. Albaraka Bank, Bank Islami, Burj Bank, Dubai Islamic Bank and Meezan Bank.

Data Collection and tool
Research depends on the measurement instrument used. The researcher has to use some tool to collect the data. Secondary data was used in this research. The tool or instrument used to collect data in this research was the annual reports of these banks. The data was collected from the annual reports and the websites of these banks.

DATA ANALYSIS AND RESULTS

Data Processing
Data was analyzed by using the statistical tool of SPSS version 16. Different statistical techniques were used to test the hypotheses. The statistical method used for analysis is regression.

Data Analysis
To confirm the significant relationship between the Profitability of Islamic Banks and Board Size and Non Executive Directors, the current study selected the Board Size and Non Executive Directors as a predictor (independent) variable and profitability of the banks as a predicted (dependent) variable.

Cronbach’s Alpha
To check the internal reliability of the instrument, Cronbach’s alpha was applied. The value of alpha lies between 0 and 1. In our case, the value of Cronbach’s Alpha is 0.761, which is above the threshold level suggested by Hair et al (2006) of 0.6.
Regression

First of all, we need to discuss the goodness of research model.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>220.324</td>
<td>4</td>
<td>55.081</td>
<td>2922.064</td>
<td>.000^a</td>
</tr>
<tr>
<td>Residual</td>
<td>1.791</td>
<td>95</td>
<td>.019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>222.115</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), BOD, NED
b. Dependent Variable: ROA

When considering ROA, The results of ANOVA test confirm the goodness of the research model. In this study, the F-Test value is 2922.064 and it is significant with p < 0.000.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>32013.365</td>
<td>4</td>
<td>8003.341</td>
<td>169.526</td>
<td>.000^a</td>
</tr>
<tr>
<td>Residual</td>
<td>4484.956</td>
<td>95</td>
<td>47.210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>36498.321</td>
<td>99</td>
<td></td>
<td></td>
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</tbody>
</table>

a. Predictors: (Constant), BOD, NED
b. Dependent Variable: ROE

While considering ROE, The results of ANOVA show the value of F-Test to be 169.526 which also confirms the goodness of research model and shows that it is significant with p < 0.000.

Now, we discuss the results of model summary.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.996^a</td>
<td>.992</td>
<td>.992</td>
<td>.13730</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), BOD, NED
The table of model summary explains the percentage change in the predicted variable due to the predictor variables. According to the results of the study, the 99.2% change in the ROA of Banks is due to the Board Size and Non Executive Directors.

<table>
<thead>
<tr>
<th>Model Summary</th>
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<tbody>
<tr>
<td>Model</td>
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<td>1</td>
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</tbody>
</table>

a. Predictors: (Constant), BOD, NED

For ROE, the table of model summary explains that according to the results of the study, the 87.2% change in the ROE of Banks is due to the Board Size and Non Executive Directors.

**Board Size**

The first hypothesis relates to board size and postulates that board size will have an effect on the profitability ratios of return on assets (ROA) and return on equity (ROE) of Islamic banks. The proposed hypothesis is:

H1: There is a significant relationship between Board size and the Profitability of Islamic banks.

**Regression Results:**

<table>
<thead>
<tr>
<th>IV</th>
<th>DV</th>
<th>β coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOD</td>
<td>ROA</td>
<td>0.526</td>
<td>0.000</td>
</tr>
<tr>
<td>BOD</td>
<td>ROE</td>
<td>0.218</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The regression results of the study confirm the significant positive relationship between Board size and ROA of the banks. The value of regression coefficient is (β= 0.526) and it is significant at p < 0.000.

The regression results of the study also confirm the significant positive relationship between Board size and ROE of the banks. The value of regression coefficient is (β=0.218) and it is significant at p < 0.000.

The positive relation between the board size and the ratios show that with the increase in board size, the profitability of the Islamic banks will be increased.
Board Independence

The second hypothesis is about the board independence. Board independence is the number of outside non-executive directors present in the board of the bank. The hypothesis postulates that board independence will have an effect on the profitability ratios of return on assets (ROA) and return on equity (ROE) of Islamic banks. The proposed hypothesis is:

H2: There is a significant relationship between Board Independency and the profitability of Islamic banks.

Regression Results:

<table>
<thead>
<tr>
<th>IV</th>
<th>DV</th>
<th>β coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>NED</td>
<td>ROA</td>
<td>1.076</td>
<td>0.000</td>
</tr>
<tr>
<td>NED</td>
<td>ROE</td>
<td>0.995</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The regression results of the study confirm the significant positive relationship between Board independence (Non-Executive Directors) and ROA of the banks. The value of regression coefficient is (β=1.076) and it is significant at p < 0.000. The regression results of the study also confirm the significant positive relationship between Board independence (Non-Executive Directors) and ROE of the banks. The value of regression coefficient is (β=0.995) and it is significant at p < 0.000.

This acceptance of hypothesis shows that the profitability of the banks will be increased when there will be more independent directors in a bank’s board.

Findings

The purpose of this study was to discover the impact of corporate governance practices on the profitability of Islamic banks. From analysis it was found that how different variables of corporate governance affect the profitability of banks.

The first hypothesis states that Islamic banks have a significant relationship between their board size and profitability. The analysis result revealed that the increase in board size of a bank will increase its profitability. The ratios of ROA and ROE showed a significant positive relationship with board size and tend to increase with the increase in board size. A larger board enhances the value of the bank in terms of increased profitability and profitability. It can be due to increased expertise from a large number of directors.

The second hypothesis says that there is a significant relationship between board independency and profitability of Islamic banks. The analysis also yields a significant positive correlation with profitability. Board independence, as we know, is the number of independent outside directors present in any board. Thus, from the results, we can disclose that as the number of outside directors in a bank’s board will increase, the profitability of the bank will also increase. It is
because the board will become more effective. They can perform the role of monitoring and control in a better way. They also reduce the agency cost.
Thus we found that how different measures or variables of corporate governance have an influence on the profitability of the Islamic banks. Profitability is calculated through the variables of ROA and ROE.
From the above discussion, it is found that there is a significant relationship between corporate governance practices and the profitability of banks. The banks should, therefore, follow good corporate governance system in order to have better profitability.

Suggestions and Recommendations
After studying the concept of corporate governance in detail in literature and by doing the research on the topic personally, different suggestions come in mind. We have seen the importance of corporate governance in the banking sector of Pakistan. Currently the code of corporate governance is volunteer to be chosen but it should be made obligatory. In this way, every organization whether it is a bank or a firm, will have the chances of better profitability. This will lead to the economic development of the country. The enhancement of corporate governance should be encouraged by the government to promote corporate governance in both the public and private sectors. In this way these sectors can be promoted. Attention should be paid on better implementation of corporate governance in the banks. For this, all the banks can avail the opportunity to have increased profitability. More awareness related to corporate governance should be brought to the employees of the banks by giving them training about components enhancing corporate governance. When the employees are aware to this concept, they can understand its importance and act for its implementation to increase the profitability. Also, improved models for practice in Pakistan should be proposed.

Limitations
Each study has some limitations. The limitations of this study are discussed here now. The most important constraint was time. The lack of time to complete this study leads to a somewhat restricted sample size. So this study is based on small sample. It is also because of using convenience sampling. The study is conducted on Islamic banks only which are very few as compared to the conventional banks. The study is conducted in the Islamic banks of Bahawalpur and nearby region only. Each bank has a different approach regarding corporate governance. They all have adopted the code of corporate governance but the dealing with concept is in different ways. Also, there is less awareness regarding corporate governance among the employees. They all are following the practices of corporate governance but they have lack of knowledge to explain this concept.

Future Implications
The future implications for this study can be that it can be done relating to corporate governance in manufacturing sector. Research can be done on conventional banks of Pakistan. A comparative study can be drawn on corporate governance of Islamic and conventional banks and their profitability. A study can be conducted for comparison of developed and developing economies.
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