Does Institutional Quality Really Matter for Islamic Banking Profitability?

Ahmad Syaikhu[1]

[1] Faculty of Economics and Business, Universitas Trisakti, Indonesia

https://doi.org/10.35609/gcbssproceeding.2026.1(93)

ABSTRACT

Islamic banking has expanded across member countries of the Organisation of Islamic Cooperation, yet profitability disparities remain pronounced. While existing studies primarily emphasize bank-specific and macroeconomic determinants, cross-country evidence on the role of institutional quality remains limited. This study examines the impact of institutional quality, operationalized using the Worldwide Governance Indicators (WGI), on Islamic banking profitability in 14 OIC countries over 2014–2024 using panel regression analysis. The results show that control of corruption and voice and accountability have a positive and statistically significant effect on profitability. These findings indicate that stronger governance structures enhance banking performance beyond internal factors and highlight the importance of institutional reform in supporting sustainable Islamic financial development. The study contributes to the literature by highlighting the institutional foundations necessary for sustainable Islamic banking development and underscores the importance of governance reform in strengthening Islamic financial systems.

JEL Codes:

Keywords: Islamic Banking; Institutional Quality; Profitability; OIC Countries; Panel Regression