



THE IMPACT OF CORRUPTION ON THE PERFORMANCE OF ISLAMIC BANKING IN THE UNITED ARAB EMIRATES: EMPIRICAL EVIDENCE BY USING STATIC PANEL ANALYSIS

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ABSTRACT

Purpose- The major objective of this paper was to scrutinize the impact of corruption control on Islamic banking performance in the United Arab Emirates. So the performance of Islamic banks was determined by the profitability as a specific objective of this study.

Methodology- Panel data was grounded on quantitative analysis applied. Also, the study collects data from secondary sources from 2000 up to 2019. The sample of this paper comprised a total of 18 banks that were selected in the UAE. Data were collected from the World Bank data set and annual financial reports for each selected bank. The study analyzed the data based on descriptive statistic, correlation matrix, and static models which includes pooled OLS model, random effect, and fixed effect to achieve the study objective. So, results were presented in the form of tables for descriptive analyses of the key variables applied, correlation as well as static models. The static model that was applied for this study provides the uniqueness of this paper because most of the previous corresponding studies did not employ a static model but used a dynamic model especially the Generalized Method of moment (GMM). So, the originality of this study firstly, it is the earliest study that used a static model, and secondly, this study may be the first to look at the impact of corruption control on Islamic bank's profitability. This is because most of the study is based on the impact of corruption and not corruption control like this study.

Findings – The findings have shown that corruption control and bank profitability have a statistical correlation relationship and its coefficient revealed a positive association which indicates that in the UAE control of corruption would increase the profitability of Islamic banks. The discussions of the findings show that some previous studies are consistent with the study while others are inconsistent. The results of this implied that the Islamic bank flourish and benefit from the corruption-controlling strategies that existed in UAE.

Conclusion – The study recommends that in UAE and other countries the zero-tolerance policy for corruption mitigation and eradication is a perfect way, efforts should take and should be achievable right now. So alternative way to expression at this is in terms of Islamic finance should not tolerate non-Shariah compliant elements and any element of the practice of corruption. So, the strong practice of corruption in the Muslim states and non-Muslim states hinders the progress of Islamic financial institutions (IFIs). From these results, Islamic finance should insist on the application of its principles for every industry that offers Islamic finance products and services.

Keywords: Corruption, Islamic banks, Profitability, UAE, Static panel data analysis

JEL Codes: C30, C33

1. INTRODUCTION

Corruption combat becomes a major issue for most countries in developed and developing countries due to its consequences on the economy, political society, and so on. Currently, this problem has been affecting many countries in all sectors as a result it hinders the development of many things among them financial development as well as the economy. So there is a great demand to explore the impact of corruption in every sector of the country. Due to that all the nations, organizations, and individuals around the world have the consequence of corruption and anti-corruption measures. As a result, countries are suffering from corruption and have tried a variety of effective methods, initiatives, and ongoing improvements to counteract it

(Nguyen, 2012). So previous studies have shown that banks and other financial institutions have been affected either positively or negatively due to the corruption practiced in the countries. According to the findings Islamic banks highly and greatly benefited from the most corrupt nations. As a general rule, Islamic banks must be transparent and refrain from engaging in any unclear corrupt activities. It is a distinguishing feature of their edifice. However, as the data demonstrate, bank profitability and corruption in the nations are strong links that existed in the previous study. While a zero-tolerance policy for misbehavior is ideal, it is not currently practical. Another perspective is to consider the tolerance standard for non-Sharia-compliant functioning in Islamic banking. Scholars and jurists from Islam are responsible and required for the advancement of Islamic finance by accepting some existing non-Sharia compliant components (Saiful Azhar, 2005). Similarly, creating and promoting Islamic banking in places wherever it is badly required but inaccessible develops a modest value to recompense currently for the good of mankind tomorrow. Islamic financial Institutions would be pushed and conduct more in-depth investigations into their operations and refuse to tolerate illicit money flows. Likewise, In the course of their employment, bankers may derive through corrupt financial transactions should refrain from participating in them and denounce them as soon as feasible.

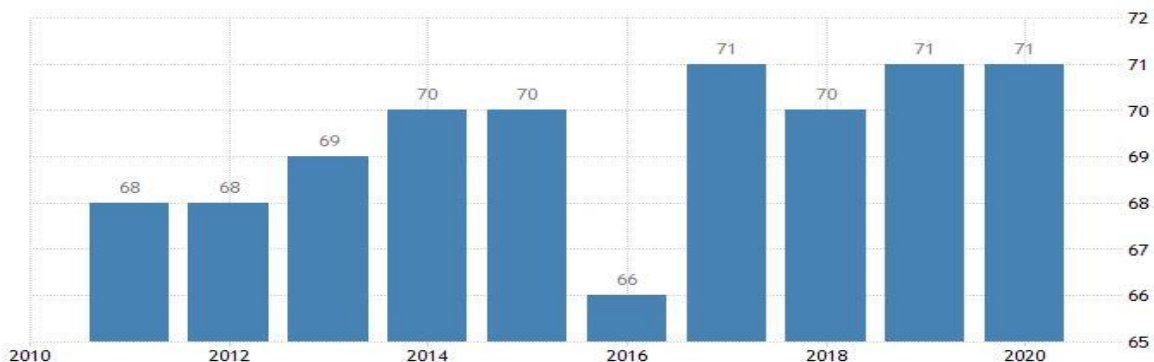
Furthermore, this phenomenon should be given more attention by existing governing bodies. They must ensure that all banks follow the same protocol, apart from that in terms of financial reporting as well as business practices. Similar bodies would be ready to intervene as well as assist in the resolution of such issues as they arise, allowing banks to concentrate on their core business. Corruption must be controlled and eradicated in all sectors and all countries because their negative effect has been justified in many studies but unfortunately, the graph of corruption practiced has increased moving upward in the developed and developing countries as well. So, UAE was a case study for this paper because Transparency international reports continue to show a bad direction for this Muslim country.

1.1. Trend of Corruption in the United Arab Emirates

Based on the reports provided annually for all nations using the "Corruption Perceptions Index"(CPI) which measures the performance of corruption in the public and private areas displayed 29 points in the UAE in 2020. The measure runs starting at 0 and ending at 100. The interpretation of their figure standing as the number approaching 100 means the higher corruption practiced in that region or country. The United Arab Emirates is classified 21st because of this result its performance is very higher than the normal situation when compared with the previous year or other nations.

In comparison to previous years in 2019, the level of corruption has remained unchanged. Despite this, it has been steadily declining in recent years in the long run. Previous research has given a variety of perspectives on corruption. Corruption can be described in a variety of ways, including through the angles of economics, religion, and politics. Some organizations and experts can also explain the corruption definition. UN Agreement against Corruption, in place of a global organization focused on corruption issues, does not provide a clear definition of its framework because its behavior varies from person to person, but Transparency International describes corruption defined as an abuse of public power for private gain or abuse of assigned power for private gain(Transparency International, 2018)

Ineffective law enforcement, in addition to explaining corruption caused by political and cultural causes, can intensify the situation. Notably, it is continuously lower in constitutionally governed countries (a system of régime in the UAE is the Federation of autonomous monarchies) So this system of government formed in the UAE could enable it to address the issue of corruption for every region in UAE. Consequently, corruption seems to be more prevalent in UAE. The average per capita income in the UAE is USD 43,470, which is quite high by global trends. The country's higher-than-average cost of living also indicates that it is relatively stable. These assessments were based on surveys performed by Transparency International, which compiles the Corruption Perceptions Index yearly. The actual ranking flips the data and gives higher weight to places with lower levels of corruption. As a result, the approved score for the United Arab Emirates in 2020 was 71 points, making it an anti-corruption statistic, with higher scores indicating lower corruption. For improved comprehension and visual acquisition of the graphs, some values have been reversed. Below are the graphs which show the trend of corruption in the United Arab Emirates over several years. IF observe in detail the corruption practice in UAE raise although some years diminish but in a general way it goes up.

Figure 1: Trend of Corruption in the United Arab Emirates from 2011 to 2020

Source: (Transparency International, 2021)

Moreover, TI reported that the UAE's rank upgraded from 37 nations out of 133 in 2003 to 21 nations out of 180 in 2019. Over the last sixteen years, the UAE has seen an increase in its CPI ranking. The UAE government's impressive attempts to fight graft are responsible for the rank changes. Following the latest global financial crisis, the federal law 4/2002 on anti-money laundering and other laws were enforced. The Abu Dhabi Accountability Authority (ADAA) was created in 2008 to fight monetary and managerial corruption. It was in charge of ensuring that public institutions handle money effectively, deliver accurate financial records, prosecute corruption allegations, and improve legal, accountable, and transparent values.

According to the central bank of the UAE, there are 22 regular and Islamic banks in the UAE in 2019, with whole assets of AED 2894.9 billion and gross credit of AED 1675.1 billion. Islamic banks have gained acceptance in the total monetary system by offering Sukuk products. According to the World Economic Forum (WEF), Islamic banks in the UAE account for 14.6% of global Islamic finance funds (WEF, 2015). In terms of anti-corruption activities, these developments encourage a concentration on the UAE's Islamic banks industry. The above report shows clearly that in UAE the Islamic Banks have had great development since it was initiated and their contribution to the economy either globally or in the UAE economy is very high.

1.2. Islamic Banking in UAE

The United Arab Emirates is one of the Muslim countries which have high development in Islamic finance, almost all Islamic financial industries including Islamic capital markets, Takaful, and Islamic banks, are well-operated in a good performance. Moreover, Islamic finance especially banks have been established for a long time and UAE is one of the countries which allowed it and provide positive significance for other countries to get advice and experience on how to operate. Mashreq Al Islamic Bank's concern with Islamic principles and most popular in the United Arab Emirates arranged the groundwork for the contemporary investment structure in the UAE also about the world in the arrangement of Islamic finance. The UAE is a principal and leading country with include Indonesia, Malaysia, and Saudi Arabia behind the advancement of contemporary Islamic finance, which adheres to Shari'ah-compliant financial practices. History shows that Dubai Islamic Bank (DIB) was the first commercial Islamic bank launched in the United Arab Emirates as well as the world in general and was established in 1975. The government of the UAE has established legislation controlling Islamic finance since the advent of Islamic banks. Currently, in UAE more than eight (8) Islamic banks are in existence, some of which are completely functional and others that serve as Islamic windows. According to the 2020 report of the Islamic Financial Service Board (IFSB), Islamic banking continues to lead the Islamic industry, followed by Islamic capital markets for banking assets of 1,765.8 and a share of 72.4% in global Islamic finance. In terms of region, the Gulf Cooperation Council (GCC) region also records 45.4% of global Islamic banking assets, followed by the Middle East and South Asia (MESA) region, which accounts for 25.9% of global Islamic Financial Service Industry assets.

Table 1: List of Islamic Banks in the United Arab Emirates by Year of Established

S/N	Name of Islamic banks	Year of Establishment
1	Dubai Islamic Bank	1975
2	Sharjah Islamic Bank	1976
3	Abu Dhabi Islamic Bank	1997
4	Dubai Bank	2002
5	Emirates Islamic Bank	2004
6	Noor Islamic Bank	2007
7	Al Hilal Islamic Bank	2008
8	Ajman Islamic Bank	2008

2. LITERATURE REVIEW

2.1. Theoretical review

Hypothetical contributions on the link between corruption and the performance of banks are conflicting. Many studies focus on the examine the correlation between corruption and banking performance but their findings still do not show consistency and the theories as well for instance the thought-led (Gerschenkron, 1952) argues that corruption can be positive to the economy. This is because it allows entrepreneurs to get loans without having to meet onerous collateral requirements for profitable projects, particularly in corrupt and underdeveloped nations (Luc, 2009). Likewise, the "grease wheel theory" proposed by (Charumilind et al., 2006) implies corruption allows businesses and prominent persons to obtain loans without meeting severe loan terms in high-corruption contexts. Furthermore, corruption has been found to boost bank loaning and therefore bank productivity in the short track, especially in finance organizations with a highly risky avoidance (Laurent, 2011).

Another school of thought contends that corruption reduces bank profitability. This means the available lending funds may be diverted to destructive activities in an economy with a extreme level of corruption, it is indicated (Bougatef, 2017). It happens because bank administrators could authorize risky credits solely intended for personal benefit through corruption and bribery, despite being conscious of their risk. Additionally, loans containing corruption are often connected with high default and creditworthiness in bank portfolios (Akins et al., 2016). So apart from these thoughts, the previous studies also were divided into two major groups whereby, others believed in the positive impact of corruption on banking performance, and others vice versa.

In addition to that,(Eisenhardt & Eisenhardt, 2018) define corruption as the result of an agency conflict, generally involving a bureaucrat who exploits his public position and thereby undermines the interests of his superiors for personal benefit. The most important assumption behind this theory is the presence of adverse selection, which prevents the primary from efficiently monitoring and regulating his agents' actions and inactions. The principal-agent theory has evolved into a strategic model to understand corruption and its consequences. As a result, the great majority of measures designed to combat corruption in the emerging economy followed the principle of agent foundations (Persson et al., 2013). Similarly, the principal-agent concept indicates that any anti-corruption initiatives should focus on structural adjustment rather than the presence of a non-corrupt leader.

2.2. Empirical Reviews

Several academics have explored the effects of corruption on bank profitability. There are several studies previously conducted based on Islamic banks and corruption from different samples of countries and banks or other organizations. This section provides a discussion of the previous studies on how carried out which includes their objectives, methods applied, findings obtained, and recommendations that they provided in their studies. Some of that studies like as follows;

(Kabir *et al.* 2022), This study focused on Islamic banks and observe the effect of corruption and money laundering on profitability and stability. It includes fifty-three conventional banks and Nineteen Islamic banks from Malaysia and Pakistan, and FE and random effect models were utilized in general. Commercial banks gain from corruption and money laundering, according to the research. While the effect of corruption and money laundering have been shown to encourage Islamic bank success and stability in less corrupt environments such as Malaysia, they have a detrimental impact in more corrupt environments such as Pakistan.

(Marwan & Haneef, 2019) study how corporate governance affects Islamic bank performance. In the analysis, they used a two-step technique of moment estimate methodology. From 2008 to 2017, the study examined data from 129 Islamic banks in 29 Muslim nations in Southeast Asia, South Asia, and with the Middle East. The outcomes displayed that all shariah supervisory boards (SSB) and committees especially audits have a beneficial influence on IB's profitability, according to the findings. However, the risk management committee and board size have a detrimental impact on IB performance.

Recent research conducted by (Mohammad, Ahmed Rufai Mohamad & Nor, 2019), explored how corruption impacts the stability of conventional and Islamic free-interest banks in the Middle East and North Africa (MENA). It focuses on the post-crisis time from 2008 to 2016. The generalized Method of Moments was the reliable method and was selected because the data was a panel and comprised many countries. So study revealed that better corruption control has a beneficial influence on the stability of Islamic banking. Also, according to the outcomes, it connected to fewer bank credit losses. Traditional banks, it continues, benefitted from corruption to reach their degree of stability. These results have been categorized and become different from Islamic banks and traditional banks.

In the same context, (Yunan, 2020), explained the way of corruption affects Islamic banks with the cases of OIC states. The study is based on a dynamic panel of a total of sixty-one Islamic banks of the member countries of the Organization of Islamic Countries. He looks at the effect of the corruption on reliability and profitability of Islamic banks. His study covers the time from 2016 to 2018. The findings show clearly that, corruption disturbs the concert of Islamic banks in OIC member countries.

(Sufian & Zulkhibri, 2015) conducted a more recent investigation. The study used a dynamic panel model to investigate the impact of economic freedom on the environment. Profitability of Islamic banks in the Middle East and North Africa (MENA) from 2000 to 2010. The study discovered that the profitability of Islamic banks has improved because of increased financial resource autonomy. The results moreover recommended that increasing profitability could be accomplished by reducing system intervention and increasing diversification. Furthermore, this research used the anti-corruption index and empirical evidence, and it was discovered that corruption exists.

Correspondingly, (Bolarinwa & Soetan, 2019), between 2011 and 2017, looked at the impact of corruption on bank profitability using samples of banks from highly and least corrupt countries. In their research, they used GMM and panel co-integration, which included both systems and different GMM applied. Corruption has a substantial influence on commercial bank profitability in both emerging and developed nations, according to the study. Furthermore, in underdeveloped nations, corruption has been found to have a beneficial influence on profitability. These results concentrate and classified the countries into developed and underdeveloped in the end the results have become the same for both groups.

Moreover, (Aslam and Haron 2019), investigate the effect of corporate governance on the performance of Islamic banks (IBs). They utilized a two-step method GM of moment estimate methodology in the analysis. The study looked at data from 129 Islamic banks in 29 Islamic nations in Southeast Asia, South Asia, and the Middle East from 2008 to 2017. The findings show that both the audit committee (AUDC) and the Sharia board (SB) have a positive impact on IB's profitability. On the other hand, the risk management committee and board size have a negative influence on IB performance.

A similar study, (Mongid & Tahir, 2011), based on a cross-country sample from 475 banks working in 6 ASEAN states to analyze the influence of corruption on bank profitability. Their report revealed that there is a positive association between a high level of corruption and bank profitability. According to these results, Islamic banks have benefited as a result of the poor governance in these countries.

Moreover, (Asteriou et al., 2016) investigated the roles of corruption on bank profitability though the level of corruption is high among these countries in Europe. In the sample of 681 European banks from the period 2000 to 2012, the findings showed that corruption harms European banks' profitability. So the study concluded that European banks which almost are conventional have been affected by corruption.

In different special cases, (Tabash, 2019), the research examined the performance of the sector of Banking and Economic Growth in the UAE in the case study of Islamic Banks. So study objective was to explore the relationship between the corruption and performance of Islamic banks in the United Arab Emirates. Both full-fledged Islamic banks operating in the UAE make up the study.

(Rizvi and Arshad, 2013), Using a multivariate regression model, they evaluated the influence of corruption on Islamic bank profitability in highly corrupt nations. As a result, ten countries have been chosen to participate in the investigation, The sample countries are Sudan, Bangladesh, Iran, Kenya, Indonesia, Tunisia, Iraq, Egypt, Algeria, and Pakistan. Using a panel dataset of

300 observations from ten different banks between 2000 and 2010, panel least squares regression consequences expose that corruption has a considerable positive influence on bank profitability.

Furthermore, (Khediri and Ben-Khedhiri, 2009) From 1999 to 2006, researchers examined the estimates imply of Islamic bank profitability for 40 Islamic banks in the MENA region. The study discovered that capitalization and management efficiency increase bank profitability by taking into account a variety of factors also including bank characteristics and market structure. Similarly, improved economic circumstances and legal structures assist Islamic banks to increase their profits. Nonetheless, the study discovered that Islamic bank profitability doesn't appear to be linked to the corruption rate.

Sufian and Habibullah (2009) used micro and macroeconomic statistics to investigate the causes of banking profitability in China. Data from the years 2000 to 2005 were used in the study. Employing regression analysis, it was discovered that all of the determining factors (variables) have a statistically significant impact on the profitability of Chinese banks. Nevertheless, the effects are not consistent among bank types. Liquidity, credit risk, and capitalization are bank-specific variables that have a beneficial impact on the profitability of state-owned commercial banks.

(Aburime, 2009) The purpose of this article was to use an econometric model to investigate the influence of corruption on bank profitability in Nigeria. The study used a panel data set that spanned the years 1996 to 2006 and included 358 observations from 48 different banks in Nigeria. The results reveal that corruption has a considerable positive impact on bank profitability in Nigeria when using backward stepwise regression.

On top of that, Research done by (Liao, 2009) found overseas banks from Asian states are extra lucrative in a corrupted atmosphere than domestic JFC banks in a cross-country comparison. Furthermore, (Mongid & Tahir, 2011) discovered that weak governance in six ASEAN nations analyzed gives advantages to banks. The research found that corruption had a negative stimulus on profits. Similarly, financial systems in Latin American countries are affected by significant levels of corruption (Pagano, 2008).

The above discussion has shown clearly that, there is a big gap in the themes of this study especially on the Islamic banks because the number of studies is very few and their results are inconsistent, although the Islamic banks based on Islamic ethics and principles and operated under the Shariah compliant still the corruption existing and some banks benefited from it. So this study could provide valuable information and additional pieces of literature on academics and all groups of decision-makers concerned about corruption.

2.3. Motivation of the Study

Promoting justice in society is one of Islam's most important goals. As a result, in a completely Islamic financial system, corruption should not exist. However, according to the available research, there is an observed link between corruption and the profitability of Islamic banks. UAE is also one of the few Muslim countries with a strong Islamic banking and Islamic finance sector. Also, though the UAE is among the Muslim governments with the most advanced Islamic banking and financial systems, TI studies reveal that their ranking on corruption is far worse, therefore these two factors, Islamic banking and corruption performance, do not drive together. As a result, the goal of this research is to clarify the link between Islamic banks and anti-corruption efforts in the United Arab Emirates.

3. METHODOLOGY OF THE STUDY

3.1. Sample and Sources of Data

The goal of this study is to see how anti-corruption measures affect Islamic bank profitability. This research includes 15 Islamic banks from the United Arab Emirates. It spans the years 2000 through 2019. Transparency International and the World Bank provide corruption indicators. The study is based on a quantitative approach which includes the numerical data of banks which were 15 selected from the UAE with each bank the data were collected. It was panel data based on static models. The data were collected from several sources for instance the data of specific banks collected from their annual financial reports while the macroeconomic variables data such as economic growth, trade openness, and corruption were collected from the World Bank.

3.2. Experimental Description

The dependent variable, Different methods can be used to determine a bank's profitability, but this study used the return on assets (ROA), This indicator is applied because of the extensive experience employed by former researchers. Also, it is the best

measurement and individuals in manipulative profitability ratios. Many researchers applied ROA to represent bank profitability measurement such as (Ahmad & Noor, 2010), (Hong, 2015), (Kingdom et al., 2015), (Mongid & Tahir, 2011), and (Bolarinwa & Soetan, 2019). A greater ROA ratio indicates that a bank's financial performance is more efficient and the ROA exhibits the bank's capacity to profitably employ financial and real investment resources. So, it is employed and recognized as a good predictor of profitability for any business entity.

The focus variable was corruption, which was assessed by looking at the degree of corruption inside each country, with Transparency International's Corruption Perceptions Index being the major corruption utilized in this study. This index is the most frequent and widely utilized in many organizations, and it is simple to obtain data from it. The opinions of risk agencies are also included in this index.

Control variables such as bank size, management, capitalization, economic growth, and trade openness were also included in the study since these variables have a significant impact on and control the profitability of organizations, particularly banks. (Sufian & Habibullah, 2009) also utilized these factors.

The size of the bank is designed by the natural logarithm to total assets, while capitalization represents the total equity and management efficiency of the bank are reflected and more significant variables because larger banks spend less owing to the distribution of their fixed costs, they may acquire a bigger market share and enjoy a better profit margin (Kosmidou, 2008). This variable is also designed to be applied to show their effect and contribution to the bank's performance.

External macroeconomic factors, such as gross domestic product and trade openness, were also external macroeconomic factors in this study. These two macroeconomic factors also applied because of the previous studies taken into consideration and they justified having a great impact on the performance of financial institutions.

So, summarized, this study applied four control variables that are bank size, capitalization, an economic growth rate which is measured by the GDP growth rate, and trade openness. While the focus variable was one which corruption index and the dependent variable which measure profitability was the return on assets.

These factors have an impact on bank profitability depending on the country's economic situation.

Table 2: Name of the Variables Applied, Descriptions and Data Sources

Variables	Measurement	Data sources
Dependent variable		
ROA	Return on Asset = Profits / Total Assets	Financial report of respective bank
Independent Variables		
ECG	Economic growth rate	WB
TRO	Trade %	WB
K	Capitalization	Financial report of respective bank
B_SIZE	Bank Size (log total asset)	Financial report of respective bank
CI	Corruption Index	TI
MGT	Management Efficiency (inefficiency)	Financial report of respective bank

3.3. Estimating Model

To measure the profitability of Islamic banks on corruption control bases the static panel model was created. So due to the objective, the model was formulated as follows

$$\text{Profitability} = \beta_0 + \beta_1 B_SIZE + \beta_2 ECG + \beta_3 TRO + \beta_4 MGT + \beta_5 CI + \beta_6 K + \varepsilon \quad (1)$$

The above econometric model of the static model represented by a dependent variable which is profitability, and its sign is Return on asset (ROA), focus variable is corruption control which shown by CI and the left are independent variable (Control variables) which includes an internal factor of the performance of Islamic bank and external factors as well. These are ECG: Economic growth rate, B_SIZE: Stands for bank size, MGT Stands for bank Management Efficiency (inefficiency), K stands for Capitalization and TRO stands for trade openness and the last sign is called error term which is shown as ε .

In the linear regression model, those variables were then transformed into logarithms as follows:

$$\log ROA_t = \beta_0 + \beta_1 \log C I_t + \beta_2 \log E C G_t + \beta_3 \log B_{SIZE_t} + \beta_4 \log T R O_t + \beta_5 \log K + \varepsilon_t \quad (2)$$

3.4. Econometric Methodology

Based on the pieces of evidence from most of the previous studies conducted with similar corruption and Islamic banking performance as well as the number of sample banks the study applied Panel data analysis. Moreover, the study is based on fifteen cross-section observations of 18 Islamic banks in the United Arab Emirates. So, the study included the years 2000 to 2019, and the estimation was based on panel data estimate, which was static panel data. Because the number of observations was little concerning the number of years the static models which include pool OLS, fixed effect, and random effect were more appropriate for the analysis of the data. Moreover, the panel analysis is also based on an estimate of the data which are time series and cross-sections. One of the benefits of panel data is that it allows for a greater number of data observations, which reduces or eliminates the risk of biased results (Baltagi & Kao, 2000), also it allows controlling for individual heterogeneity, to get richer information and has more degrees of freedom.

The pooled OLS technique, fixed effect method, and random effect technique are all used to estimate panel analysis. Pools all observations in the OLS estimate and overlooks the fact that time series and cross-sectional data. It is expected that the dependent variable's coefficients are constant cross-sections and time. The model is also known as the constant-coefficient model because of this. A pooled model combined groups without making any assumptions about individual differences (heterogeneity).

The fixed effect approach is acceptable in the situation of balanced panel data when all cross-sectional data variables are constant and there are no missing values, but it is not acceptable if the data is imbalanced. It also adjusts for omitted variables that change across N but are constant across T (i.e., unobserved heterogeneity). It is expected that the error term would fluctuate over time and between nations. In the pooled OLS regression, the nations' heterogeneity is not taken into consideration. While pooling all of the data, the fixed effects least squares dummy variables (LSDV) model allows each observation to have its intercept dummy.

Random Effects (RE) is employed if you feel that certain omitted variables may be constant over time but the change between cases and others may be fixed between cases but fluctuate over time, then you may include both types by applying a random model.

4. FINDINGS AND DISCUSSION

The findings of the data analysis are detailed and explained in this section. In line with earlier research (Bolarinwa & Soetan, 2019), (Arshad & Rizvi, 2013), and (Bougatef, 2017). The descriptive statistics of the selected variables are included in the analysis, followed by the correlation matrix, and, finally, the fixed effects results, the pooled OLS results, and random effects results are displayed and discussed.

4.1. Descriptive Statistics

The descriptive statistics are shown in Table 3 for Corruption Index, Bank Size, management effectiveness, profitability, capitalization, Trade Openness, and GDP growth for the entire sample. The mean for the profitability presented by ROA is 2.21 while its maximum is 13.1 percent, and its minimum was -9.08. On the side of the focus variable which is corruption control, its average is 46.38 and the maximum and minimum were 58.33 and 33.33 respectively. In addition to that, the GDP growth and bank size mean were 37057.89 and 28776.69 respectively while the maximum GDP growth was 44498.93 and the minimum value was -0.053. Furthermore, the average rate of management efficiency was noted at 36.43 percent as their mean. Where the maximum and minimum are 96.40 and 9.7 percent respectively. On the general overview, the economic growth represented by GDP has the highest mean level, and maximum unit as well. For the standard deviation, the bank size has the highest value than economic growth. The number of observations of the data ranges from 346 to 360. So data was very sufficient and meet all criteria of panel data analysis. The description of the other variables employed in this section is displayed in the same table below.

Table 3: Represent Descriptive Statistics

	ROA	TRO	MGT	K	ECG	CI	B_SIZE
Mean	2.2122	83.164	36.439	16.915	37057.8	46.388	28776.69
Maximum	13.150	176.80	96.400	39.760	44498.9	58.333	420713.5
Minimum	-9.0800	0.6666	9.770	5.330	-0.0538	33.333	13.04913
Std. Dev.	1.598	66.023	11.367	6.029	8607.3	12.096	67290.62
Observations	353	346	353	353	360	360	353

4.2. Correlation Matrix

The correlation among the most reliable components of ROA is presented in table 4, which displays the findings of correlation among the studied variables, with most of these variables showing a positive and others a negative relationship with ROA.

The goal of the study which intends to find out the impact of corruption control on Islamic banking profitability. The results of the correlation matrix are depicted in table 4 below. With regards to Islamic bank profitability, the table reveals that there is a strong linear association between bank profitability and corruption control although that was a negative association, it is not new because even this association also reflects the regression results of OLS in the next section. As corruption control increases the bank's profitability will decrease. This justifies that the UAE experiences among the countries which have the bad condition for corruption activities even though several measures are taken to address this problem but remained at the same level for three previous years as TI reported.

Moreover, trade openness and GDP growth referred to be as the fundamental inputs to the rise of banking profitability, they have shown to have a linear association with economic growth. Both variables are crucial inputs of the growth of Islamic banks' performance and the results revealed on positive linear relation. When the UAE's trade openness and economic growth rise it clearly will motivate the better performance of the Islamic bank. Apart from that the left variables which are bank management Efficiency (inefficiency), capitalization, and bank size also have a linear correlation with bank profitability but it depicted a negative sign.

Table 4: Correlation Matrix between Explanatory Variables

	ROA	TRD	MGT	B_SIZE	ECG	K	CI
ROA	1	0.232	-0.467	-0.285	0.019	0.486	-0.357
TRO	0.232	1	-0.115	-0.922	-0.137	0.088	-0.482
MGT	-0.467	-0.115	1	0.072	0.146	-0.184	0.056
B_SIZE	-0.285	-0.922	0.072	1	0.151	-0.191	0.709
GDPC	0.019	-0.137	0.146	0.151	1	0.106	0.113
K	0.486	0.088	-0.184	-0.191	0.106	1	-0.160
CI	-0.357	-0.482	0.056	0.709	0.113	-0.160	1

4.3. The Results for Panel Regressions

This section contains the panel regression results and interpretation of the outcomes. The results of this study will be shown in Table 5, the analysis of the data was based on panel analysis which could be estimated in the three stages which appeared in the table below. That table shows clearly the three steps which started from estimating pooled OLS then fixed effect and random effect. The table includes a Hausman test, B_LM test, and Chi-square to determine which of the three models is the best estimator. The study applied the test of B_LM to choose either pooled OLS or a random-effect model, the null hypothesis (H0) states that the variance of the unobserved fixed effects is zero, implying that POLS should be used. If p-value >5%, then use POLS while if p-value <5%, then use RE. On the side of the rule of thumb, after verifying to choose a random effect, the study tests the Hausman to choose either a random effect or a fixed effect. In the null hypothesis, individual-specific effects are not correlated with independent variables so the null state that if the p-value > 0.05 the RE is more appropriate, and if the p-value < 0.05 the fixed effect is the best.

The result revealed that the probability was 0.0004 so the fixed become the best. So, because there is a conflict between the Pool OLS and the Fixed effect model, due to the Chi-square is applied. The Null hypothesis is that if the P-value is greater than 0.05 the pool OLS is applicable and if less than 0.05 the fixed effect model is applicable. Based on the result the p-value was 0.0000 so the fixed effect model was used for the interpretation of the result compared to other models.

Table 5 displays the regression findings; the profitability of Islamic banks is destroyed by corruption. In all three models, the corruption index is statistically significant with a negative coefficient. It is the corruption index in UAE based on their measures of eradicating and mitigating could affect the performance of their banks, the situation is claimed that Islamic banks in highly corrupt states have low profitability. The corruption index, which is negative and substantial at 5%, is an unexpected outcome. It simplifies our understanding considerably.

The findings support our prediction that banks operating in a corrupt environment may have surplus pricing capacity in terms of lending and deposit rates. So Islamic banks in UAE get disadvantages from the corruption activities which continue to practice in UAE while this is not good information and behavior because Islamic banks must base on Islamic ethical issues which have already been explained in the Quran and Hadith as well as other sources of Islamic laws. Islamic banking and Islamic financial must rely on Shariah-compliant and no other fake methods. These results are supported by (Bolarinwa & Soetan, 2019), and (Mongid & Tahir, 2011) while it was opposite by also from the outcomes of Arshad and Rizvi (2013) as well as Asteriou et al. (2016).

In the case of other variables such as Management Efficiency (inefficiency), capitalization, and economic growth, both the fixed effect and random effect models become statistically significant. The Capital and economic growth were positively significant while the Management Efficiency (inefficiency) was a negative coefficient. The rest variables trade openness and bank size were insignificant in the fixed-effect model.

Table 5: Static Model's Results of POL OLS, FE, and RE Dependent Variable: LNROA

Variables	Pooled OLS	Random effects	Fixed effects
LNTRO	0.0099* (0.0034)	0.0057** (0.0031)	0.0037 (0.0030)
LNMGT	-0.0515* (0.0059)	-0.0705* (0.0060)	-0.0788* (0.0071)
LNK	0.1071* (0.0117)	0.1276* (0.0122)	0.1400* (0.0131)
LNECG	0.0404 (0.0273)	0.0594** (0.0328)	0.0766* (0.0213)
LNCI	-0.0573* (0.0099)	-0.0462* (0.0089)	-0.0406* (0.0086)
LB_SIZE	0.1997* (0.0726)	0.1131** (0.0661)	0.0710 (0.0600)
C	2.5844	3.0555	3.1250
Observation	338	338	338
R-squared	0.578	0.47	0.767
Pagan LM	0.0000		
P-Hausman test		0.0004	
Chi-square			0.0000

*,** denote significance at 5% and 10%, respectively; In parentheses, standard errors are listed.

5. CONCLUSION AND RECOMMENDATION

According to the findings of the observed investigation, Islamic banks in corrupt nations benefit significantly. Islamic banks are required to avoid any ambiguous corrupt practices by their nature. But in Islamic banks entirely Corruption should not exist since one of Islam's main goals is to promote justice in human society. Therefore, in a list of sample banks, there are correlations

between anti-corruption efforts and bank productivity. It is a lesson for UAE and all other Muslim and non- countries should be understanding that a zero-tolerance policy for corruption mitigation and eradication is a perfect way and achievable method for increasing revenue and profits for financial institutions like banks. So alternative way to expression at this is in terms of Islamic finance's Shariah-compliant elements and other principles should be applied because most of them give benefits to the Islamic finance industry. So, the strong practice of corruption in Muslim states the first time would hinder the growth of Islamic financial institutions.

Moreover, the study provides policy recommendation for all banks and Islamic banks especially because this study focus on Islamic banks must make sure their transactions comply with Sharia to keep the Islamic banks very safe from the impact of all illegal practices like corruption and Islamic banks due to their principles and ethical conduct should relax collateral requirements for productive enterprises and investments to minimize corruption in the banking industry. This will diminish the bribes and dishonest activities that these companies use to get loans. As such ventures assist both banks and businesses, the end will be a win-win situation. This also has the potential to cut the cost of financing, resulting in cheaper pricing for products and services in the economy. Similarly, banks are encouraged to have a better corporate governance structure to prevent and combat corruption, particularly in extremely corrupt situations, as this may have a detrimental impact on bank profitability.

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