Abstract

Purpose

This study examines whether bank size mediates the relationship between financial soundness and operational efficiency of Islamic banks in sub-Saharan Africa (SSA), where the sector remains small despite growing policy relevance.

Design/methodology/approach

Panel data from 35 Islamic banks (2010–2024) were analyzed using bias-corrected Variable Returns to Scale scores from the Simar–Wilson two-stage Data Envelopment Analysis. A panel-based mediation model with two-way fixed effects was employed, with bank size (log of deposits) as the mediator.

Findings

Financial soundness significantly improves operational efficiency, with asset quality exerting a negative effect and earnings stability a positive effect. However, financial soundness does not significantly influence bank size, and bank size does not significantly affect efficiency once soundness is controlled for. Consequently, the mediation hypothesis is not supported, indicating that scale does not function as a transmission mechanism in SSA Islamic banking.

Research limitations/implications

The findings caution against consolidation-led efficiency strategies and support policy emphasis on governance, regulatory infrastructure and operational capacity building to enhance inclusive and sustainable Islamic banking development.

Originality/value

This study provides one of the first empirical assessments from SSA that explicitly tests the mediating role of bank size in the soundness–efficiency relationship. The findings show that scale expansion does not operate as a transmission mechanism, suggesting that scale-driven efficiency strategies may have limited applicability.