Purpose

This study examined the effect of financial soundness on the operational efficiency of Islamic banks operating in Sub-Saharan Africa (SSA), a region characterized by emerging Islamic banking systems and constraints. It focused on how capital adequacy, asset quality, earnings quality and liquidity management influence efficiency outcomes.

Design/methodology/approach

The study applies a Simar–Wilson two-stage data envelopment analysis framework to a balanced panel of 35 fully-fledged Islamic banks in SSA from 2010 to 2024. Bias-corrected efficiency scores are estimated under variable returns to scale and subsequently analyzed using a panel regression framework with two-way fixed effects and robust standard errors to control for unobserved heterogeneity across banks and time.

Findings

The findings revealed a heterogeneous relationship between financial soundness and operational efficiency: asset quality was positively and significantly associated with efficiency, whereas earnings quality exhibited a negative relationship, indicating a profitability–efficiency trade-off. Capital adequacy showed no direct effect, while liquidity management demonstrated a weak and context-dependent influence.

Practical implications

The analysis is limited to fully-fledged Islamic banks with complete data. The findings suggest that regulators and managers should prioritize asset quality improvement and efficiency-oriented strategies over balance-sheet expansion.

Originality/value

The study provides one of the first ever comprehensive, bias-corrected DEA empirical assessments of operational efficiency in Sub-Saharan Africa in Islamic banking. By distinguishing operational efficiency from traditional profitability measures, it challenges the assumption that improved financial soundness inherently enhances efficiency in emerging Islamic banking markets.