



AWARENESS OF EFFECTIVENESS OF SHARĪ'AH  
SCHOLARS ROLE IN CORPORATE GOVERNANCE OF  
ISLAMIC FINANCIAL INSTITUTIONS IN MALAYSIA

BY

ALI ADOUM

A dissertation submitted in fulfilment of the requirement for  
the degree of Master of Science in Islamic Banking and  
Finance (IiBF)

Institute of Islamic Banking and Finance  
International Islamic University Malaysia

APRIL 2014



*“In the name of Allah, the Most Gracious,  
the Most Merciful”*

## ABSTRACT

The role of Shari'ah committee and Shari'ah review towards effective governance of Islamic Financial Institutions is that the Shari'ah committee executes fiduciary duties to all the stakeholders of the Islamic Financial Institutions. Similarly, Shari'ah review board of Islamic Financial Institutions is to assist Muslims in abiding to their religious values by ensuring that the Islamic Financial Institution's products are ultimately Shari'ah compliant. The purpose of this wholly qualitative research study was to explore the role and importance of Shari'ah committee and Shari'ah review in Corporate Governance of Islamic Financial Institutions in Malaysia excluding Islamic Insurance companies or Takaful companies. Data for the study was elicited through interviewing and document analysis and purposive sampling technique was utilized to select the respondents. The interview data analysis was performed by using a qualitative method which involved identifying interview themes, comparing the participant's views and determining the commonality among their views. Emergent themes included: Corporate and Shari'ah Governance, Role of Shari'ah Committee, Product Compliance and Innovation, Shari'ah Compliant Review and Shari'ah Report Adequacy. The findings amongst other things indicated that Shari'ah review and Shari'ah committee of Islamic financial institutions play a role of overseeing that all operational process of the bank are Shari'ah Shari'ah compliant and that the Board of Director members need to be conversant with Islamic finance which is the critical indicator of corporate Governance. In conclusion, Shari'ah Governance has yet to be recognized by the Shari'ah scholars.

## خلاصة البحث

إن دور لجنة الشريعة الإسلامية نحو الإدارة الفعالة للمؤسسات المالية الإسلامية هو قيام تلك اللجنة بتنفيذ الواجبات الائتمانية لجميع أصحاب المصلحة في المؤسسات المالية الإسلامية، كما يقوم بمراجعة منتجات وعقود المؤسسات المالية الإسلامية من حيث الحل أو الحذر، لیتّم مساعدة المسلمين في الالتزام بالقيم الدينية من خلال ضمان أن منتجات المؤسسة المالية الإسلامية موافقة مع الشريعة الإسلامية في نهاية المطاف. ولهذا كان الهدف من هذه الدراسة استكشاف وبيان أهمية لجنة الشريعة الإسلامية ومراجعتها لما تقوم به الشركات في المؤسسات المالية الإسلامية في ماليزيا عدا شركات التأمين الإسلامية أو شركات التكافل. وقد تمّ مناقشة هذه الدراسة من خلال المقابلات وتحليل الوثائق، كما تمّ استخدام تقنية أخذ العينات الهادفة لتحديد المشاركين. تم إجراء تحليل بيانات المقابلات باستخدام أسلوب النوعية التي اشملت على تحديد نوعية المقابلة وأسئلتها، كما تم إجراء مقارنة آراء المشاركين وتحديد القواسم المشتركة بين وجهات نظرهم. وقد شملت الجهة المقابلة على كل من اللجنة التشريعية التي تشرف على المنتجات المصرفية الإسلامية، ولجنة الشركات المتشابهة؛ ولجنة غرس تعاليم الشريعة الإسلامية في الشركات؛ والمستشارين الشرعيين، والجانب العملي من الخبرة المصرفية الإسلامية. الموضوعات الناشئة شملت: حوكمة الشريعة والشركات، دور لجنة الشريعة الهيئة الشرعية، الابتكارات و المنتجات المتتمة بالشريعة، المراجعة المتتمة بالشريعة، وتقرير كفاية الشريعة. وأشارت النتائج إلى أن لجنة الشريعة و المراجعة الشرعية للمؤسسات المالية الإسلامية تلعب دور الإشراف، وأن كل عملية التشغيلية للمصارف خاصة في إشرافها حتى تكون متوافقة مع الشريعة الإسلامية. ختاماً، فإن لجنة الشريعة لا تزال محل بحث بين علماء الشريعة من حيث الاعتراف.

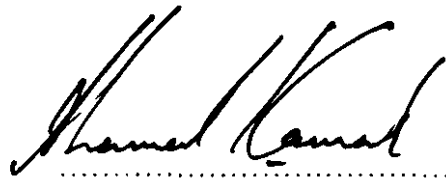
## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Islamic Banking and Finance.



.....  
Syed Musa Alhabshi  
Supervisor

This dissertation was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as a partial fulfilment of the requirement for the degree of Master of Science in Islamic Banking and Finance.

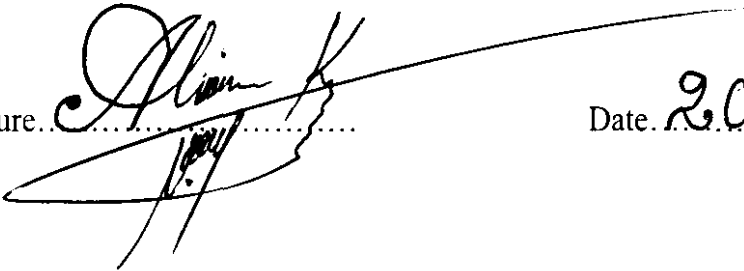


.....  
Ahmed Kameel Mydin Meera,  
Dean IIUM Institute of Islamic  
Banking and Finance

## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole or in part for any other degrees at IIUM or any other institutions.

Ali Adoum

Signature..........  
Date.....20/04/2014.....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

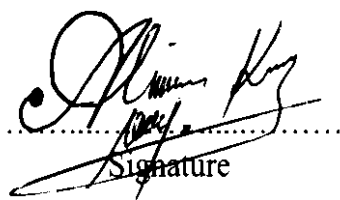
**DECLARATION OF COPYRIGHT AND AFFIRMATION OF  
FAIR USE OF UNPUBLISHED RESEARCH**

Copyright © 2014 by International Islamic University Malaysia. All rights reserved.

**AWARENESS OF EFFECTIVENESS OF SHARĪAH  
SCHOLARS ROLE IN CORPORATE GOVERNANCE OF  
ISLAMIC FINANCIAL INSTITUTIONS IN MALAYSIA**

I hereby affirm that International Islamic University Malaysia (IIUM) holds all rights in the copyright of this work and henceforth any reproduction or use in any form or by means whatsoever is prohibited without the written consent of IIUM. No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder.

Affirmed by Ali Adoum

  
.....  
Signature

20/04/2014  
Date

*I humbly dedicate this thesis to*

*My beloved late parents*

*Mr. Adoum Yousouf Konto and Mrs. Khadijah Isha'q Mall, for their parental love and guidance. Their invaluable guidance and lessons will lead my life forever (May Allah bless your souls and grant you Jannahtul Firdaus).*

*My beloved F.W.*

*Fatin Aina Amirah*

*For her greatest sacrifice, care, trust, encouragement, belief and confidence. Your continuous support and delicate love have been sources of endless inspirations.*



## ACKNOWLEDGEMENTS

*Assalamualaykumwarahmatullahi wabarakatuh,*

My ultimate praises to the Almighty Allah S.W.T., the most Gracious and the most Merciful, Lord of the universe. Peace and blessing be upon Prophet Muhammad (PBUH). Alhamdulillah, I am so grateful that Allah S.W.T has granting me this strength that assisted me to initiate and most importantly, being able to complete this project paper.

First and foremost, I would like to express my appreciation to my supervisor, Associate Professor. Dr. Syed Musa Alhabshi for his never ending support, guidance, cooperation and patience in guiding me to complete my research paper. This research paper would not be complete without his guidance and comments. I am indebted to him for his patience in correcting and improving my draft before I can come up with the final form.

Secondly, special thanks to all lecturers at Institute of Islamic Banking and Finance (IBF) of International Islamic University Malaysia (IIUM) as these are the people who responsible in giving me knowledge and taught me so well throughout the journey. My gratitude also goes to the administration staffs that always assists me at the Post Graduate Unit especially regarding the research procedure. May Allah rewards them for their kindness and assistance throughout my study period at IIUM.

Above all, I would like to thanks my family especially my parents Mr. Adoum Yousouf Konto and Mrs. Khadijah Isha'q Mall, and brothers and sisters for their prayers.

Finally, big thanks to everyone who helped me directly or indirectly in the completion of the research paper. I really appreciate everything that was given to me, and the blessings that were bestowed upon me to have such wonderful people like all of you in my life. May Allah S.W.T rewards you and your family for the aforementioned endeavors. Honestly, I can never thank you enough for your kindness and assistance. Last but not least, I presented this research paper as a symbol of gratitude for everyone, and as the celebration of knowledge that we have gained along the ride, in hopes that it will benefit us together.

## TABLE OF CONTENTS

Abstract .....	ii
Abstract in Arabic .....	iii
Approval Page.....	iv
Declaration.....	v
Declaration of Copyright .....	vi
Dedication .....	vii
Acknowledgements.....	viii
List of Tables .....	xii
List of Figures .....	xiii
List of Acronyms .....	xiv
Glossary .....	xvi
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.0 Introduction .....	1
1.1 Background .....	1
1.2 Statement of the Problem .....	3
1.3 Purpose and Objectives.....	4
1.4 Research Questions .....	5
1.5 Scope of Research .....	5
1.6 Limitations of the Study.....	5
1.7 The Structure of the Study .....	6
1.8 Conclusion.....	9
<b>CHAPTER TWO: COMPARATIVE CORPORATE GOVERNANCE OF ISLAMIC BANK INSTITUTIONS.....</b>	<b>10</b>
2.0 Introduction.....	10
2.1 Corporate Governance: Principles and Practices .....	10
2.1.1 Corporate Governance in the Financial Services Sector .....	11
2.1.2 Role of Corporate Governance.....	12
2.1.3 Corporate Governance System.....	13
2.1.3.1 Behavioral Theories on Governance of Firm.....	14
2.1.3.2 The Anglo-Aaxon Model.....	16
2.1.3.3 The European Model.....	18
2.1.3.4 The difference between the Anglo-Saxon and European based on background and the rationale for the variance .....	21
2.2 Corporate Governance of Islamic Financial Institutions .....	23
2.2.1 Institutional Reforms of Corporate Governance Code.....	25
2.2.2 Financial Institution Reforms and Corporate Governance.....	26
2.2.2.1 Key Participants in Corporate Governance in Financial Services Sector.....	27
2.3 Corporate Governance of Islamic Banks .....	28
2.3.1 Ethical Values on Corporate Governance .....	28
2.3.1.1 Tawhid Epistemology and Shuratic process .....	31
2.3.1.2 Stakeholders-Oriented Approach.....	33

2.3.2 Defining Corporate Governance in Islamic Financial Institutions.....	34
2.3.3 The Role of Corporate Governance in Islamic Financial Institutions.....	35
2.3.4 The Differences Between Conventional and Islamic Banks Corporate Governance .....	38
2.3.5 The Development of Corporate Governance of Islamic Banks in Malaysia.....	39
2.2.6 Summary of Common Corporate Governance Principles for Islamic Banks.....	42
2.4 Conclusion.....	48

### **CHAPTER THREE: SHARĪ'AH GOVERNANCE FRAMEWORK:**

<b>SHARĪ'AH COMMITTEE AND SHARĪ'AH REVIEW .....</b>	<b>49</b>
3.0 Introduction.....	49
3.1. Sharī'ah Governance Framework .....	50
3.1.1 Conceptual Framework of Sharī'ah Governance System .....	51
3.1.2 Function of Sharī'ah Governance System .....	53
3.1.3 Principle of Sharī'ah Governance .....	54
3.1.4 The Sharī'ah Governance Framework for Islamic Financial Institutions.....	59
3.1.5 Structure of Sharī'ah Committee .....	63
3.1.5.1 Role of Sharī'ah Committee .....	63
3.1.5.2 Duties and Responsibilities of Sharī'ah Committee .....	65
3.1.5.3 Appointment of the Sharī'ah Committee.....	66
3.1.5.4 Composition of Sharī'ah Committee .....	68
3.1.5.5 Qualification and Experience of Sharī'ah Committee .....	68
3.1.5.6 Meeting of Sharī'ah Committee.....	71
3.1.5.7 Function of Sharī'ah Committee.....	71
3.1.6 Sharī'ah Compliance Review Process .....	73
3.1.7 Sharī'ah Report .....	74
3.1.8 Internal Sharī'ah Compliance Review .....	76
3.2 Key Result Areas for Sharī'ah Compliance in Corporate Governance of Islamic Financial Institutions.....	77
3.3 Conceptual Model .....	77
3.4 Summary of Essential Components of Sharī'ah Governance .....	78

### **CHAPTER FOUR: METHODOLOGY .....**

<b>4.0 Introduction.....</b>	<b>80</b>
4.1 Research Design.....	80
4.1.1 Subjects .....	82
4.1.2 Respondents .....	82
4.1.3 Sampling Technique/Strategy .....	84
4.1.4 Instrumentation .....	85
4.1.5 Pilot Study.....	86
4.2 Data Collection Procedure .....	86
4.3 Data Analysis of the Semi-Structured Interview Based on Delphi Method .....	88
4.4 Limitations of the Qualitative Methodology.....	88

4.5 Relevance of the Method .....	90
4.6 Purpose of the Method .....	91
4.7 Validity and Respondents of the Study .....	92
4.9 Conclusion.....	95
<b>CHAPTER FIVE: DATA ANALYSIS AND FINDINGS .....</b>	<b>96</b>
5.0 Introduction .....	96
5.1 Themes Generated after Interview Coding .....	99
5.1.1 Corporate and Shari'ah Governance .....	99
5.1.2 Role of Shari'ah Committee .....	102
5.1.3 Product Compliant and Innovation .....	105
5.1.4 Shari'ah Compliant Review .....	107
5.1.5 Shari'ah Report Adequacy .....	111
5.2 Summary Tables of Sharênah Governace Framework Represent based on Annual Report .....	114
5.3 Major Findings of the Study and Significance to Islamic Financial Institutions.....	115
5.3.1 What are the perceived roles of Shari'ah committee on Corporate Governance of Islamic Financial Institutions?.....	116
5.3.2 Which Shari'ah committee function is important for Corporate Governance?.....	117
5.3.3 Why is Shari'ah Compliance Review conducted and presented? .....	118
5.3.4 Are the objectives of Shari'ah Compliance Review important for Corporate Governance? .....	119
5.3.5 Why is Shari'ah report prepared and presented? .....	120
5.3.6 Are the objectives of Shari'ah Report relevant for Corporate Governance?.....	121
5.4 Conclusion.....	122
<b>CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS .....</b>	<b>124</b>
6.0 Introduction .....	124
6.1 Shari'ah Conclusion Model.....	124
6.2 Recommendations and Suggestions .....	125
6.3 Recommendations and Suggestions for Future Studies .....	126
6.5 Conclusion .....	127
<b>BIBLIOGRAPHY .....</b>	<b>128</b>
<b>APPENDICES.....</b>	<b>140</b>

## LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Guiding to Principles of Corporate Governance	42
2.2	Guiding to Principles of Sharī'ah Governance	45
3.1	The Unique of Sharī'ah Governance	53
3.2	The Components of the Framework and its Explanation	61
3.3	The Components and Function	62
4.1	Analysis of the respondents of the interview based on Delphi method amongst banks participating in the Malaysia Islamic Financial Institutions (IFIs)	83
4.2	Analysis of the respondents of interviews for regulatory Authority	84
5.2	Key Result Area	114
5.3	Sharī'ah board Meeting and Attendance	115

## LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
1.1	A Framework for the Thesis	8
2.1	The Anglo-Saxon Model of Corporate Governance Decision Making	18
2.2	Corporate Governance structure of the European model.	20
3.1	The Shari'ah Governance Framework for Islamic Financial Institutions	60
3.2	Conceptual Model	77

## LIST OF ACRONYMS

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
ABMB	Alliance Bank Malaysia Berhad
AFHB	Asian Finance House Bank Berhad
AIBB	Affin Islamic Bank Berhad
AIBB	AmIslamic Bank Berhad
ARBB	Al-Rajihi Bank Berhad
BAFIA	Banking and Financial Institutions Act 1984
BBA	<i>Bay_ Bithaman Ajil</i>
BCBS	Basel Committee on Banking Supervision
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia (Central Bank of Malaysia)
BOD	Board of Directors
BKRM	Bank Kerjasama Rakyat Malaysia Berhad
BPKSMB	Bank Perusahaan Kecil & Sederhana Malaysia Berhad
BPMB	Bank Pembangunan Malaysia Berhad
BPMB	Bank Pertanian Malaysia Berhad (Agro Bank)
BSNB	Bank Simpanan Nasional Berhad
CBA	Central Bank of Malaysia Act 2009
CBB	Citi Bank Berhad
CSR	Corporate Social Responsibility
CEO	Chief Executive Officer
CIMB	CIMB Islamic Bank Berhad
EXIMB	Export-Import Bank Malaysia Berhad
GPS1	Guidelines on the Governance of Shari" ah Committee for the Islamic Financial Institutions
HLIBB	Hong Leong Islamic Bank Berhad
IAH	Investment Account Holders
IB	Islamic Banking
IFIs	Islamic Financial Institutions
IFSB	International Financial Services Board
IiBF	International Institute of Islamic Banking and finance
IOSCO	International Organization of Securities Commission
ISCU	Internal Shari'ah Compliance Unit
ISRA	International <i>Shari'ah</i> Research Academy
ISRU	Internal Shari'ah Review Unit
KFH (M)	Kuwait Finance House Malaysia Berhad
LTH	Lembaga Tabung Haji
MBIB	Maybank Islamic Berhad
MIB	Maybank Islamic Bank Berhad
OCBC	Orange County Business Council- OCBC Al-Amin Bank Berhad
OECD	Organization for Economic Co-operation and Development
PIBB	Public Islamic Bank Berhad
RHB	RHB Islamic Bank Berhad

SAC	<i>Sharī'ah</i> Advisory Council
SCSB	Standard Chartered Saadiq Berhad
SGF	<i>Sharī'ah</i> Governance Framework
SHC	<i>Sharī'ah</i> Committee



## GLOSSARY

<i>bay" bithaman ajil</i>	A sales contract on a deferred payment basis.
<i>Fatwa</i>	Shariah decision.
<i>Gharar</i>	Uncertain
<i>Halal</i>	Permissible according to the Islamic law.
<i>Hikmah</i>	Rational
<i>ijtihad</i>	Legal opinion.
<i>mua" malat</i>	Matters pertaining to human relation in Islam.
<i>s.a.w</i>	Peace be upon him.
<i>Shari'ah</i>	Islamic law.
<i>Sunnah</i>	The traditions of Prophet Muhammad s.a.w.; the Recommended practice of Prophet Muhammad s.a.w.
<i>Takaful</i>	Islamic insurance.
<i>Ummah</i>	Nation.
<i>usul-fiqh</i>	The methodology of Islamic jurisprudence.
<i>zakat</i>	Alms-giving; represent one of the five basic tenets in Islam.
<i>fiqh al-mua'malat</i>	Islamic commercial jurisprudence

# CHAPTER ONE

## INTRODUCTION

### 1.0 INTRODUCTION

Despite large number of prior studies on corporate governance from conventional perspective in developing country, very few empirical studies can be found in the context of corporate governance of Islamic Banking. An intergral organ of Shar'ah Governance of Islamic Financial Institutions is Shari'ah committee<sup>1</sup> or Shari'ah Board. The views of the Shari'ah Scholars in the committee on their role in Corporate Governance are highlighted in this study.

This chapter will discuss background frames of the study, followed by objectives of the research, research questions, a brief scope of the research, its purpose and limitation; ultimately, with a section on the conclusion.

### 1.1 BACKGROUND

A Shari'ah board or committee board also called a Shari'ah committee is an independent body of specialized jurists in *fiqh al-mua'malat* (Islamic commercial jurisprudence). However, a Shari'ah committee may also include a member other than those specialized in *fiqh al-mua'malat* but who should be expert in the field of Islamic financial institution and with the knowledge of *fiqh al-mua'malat*. Furthermore, the Shari'ah committee is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that are in

---

<sup>1</sup> The term Shari'ah committee this called by BNM Malaysia, however, the Shari'ah Supervisory Board (SSB) refer to Shari'ah Board used by AAOIFI and IFSB in their Governance Standards for IFIs. Whilst Shari'ah Committee, Shari'ah Supervisory and Shari'ah Board equal to Shari'ah Scholar in Islamic Financial Institutions. Shari'ah committee is defined in the chapter three.

compliance with Islamic Shari'ah Rules and Principles. Consequently, the fatwas and rulings of the Shari'ah supervisory board are binding on the Islamic financial institution (AAOIFI, 2007). To this end, Zulkifli (2007) reported that the term Shari'ah Committee or Shari'ah Supervisory Council or Shari'ah Advisory Council has been used interchangeably for the past 21 years. IBA 1983 used the term Shari'ah Supervisory Council while BAFIA 1984 used the term Shari'ah Advisory Council. The term Shari'ah Committee has been introduced by Bank Negara Malaysia in the Guidelines and Procedures for Shari'ah Committee issued in December 2004 (Zulkifli, 2007). The Financial Times Ltd (2013) also asserted that a Shari'ah supervisory Board or Shari'ah committee is set up by a financial institution (usually an Islamic bank or an Islamic insurance company) to advise and certify certain financial products. Originally, the Shari'ah board was not a requirement for IFIs but it has been regulated because of the sophistication of financial products. The benefits are twofold:- there is now formal confirmation on whether or not these products are fully Islamic and having a Shari'ah Board adds credibility to Islamic financial institutions. Finally, some Islamic countries have made it compulsory for an Islamic financial institution to have a Shari'ah board. Shari'ah scholars have created a market of their own because the financial institutions are free to choose the Shari'ah scholars who will be part of the board (The Financial Times Ltd, 2013).

Furthermore, AAOIFI also stated that:

“Shari'ah review is an examination of the extent of an IFI's compliance in all its activities with the Shari'ah. This examination includes contracts, agreements, policies, products, transactions, memorandum and articles of association, financial statement, report including those of internal and external audit and central bank inspection and circulars etc...”

On the other hand, in Islamic financial institution Shari'ah corporate

governance mostly refers to then management, establishment and affairs of the SAC (Zulkifli, 2007). Also, Sajjad Ahmad (2010) asserted that:

“Corporate governance is not new to Islamic finance. Indeed, Islamic finance embeds the basic tenets of good corporate governance, stressing the three main areas of accountability, transparency and trustworthiness. Islamic banking offers a different paradigm from conventional banking, and from the viewpoint of corporate governance, it embodies a number of interesting features since equity participation, risk and profit-and-loss sharing arrangements form the basis of Islamic financing. These financial arrangements imply different stakeholder relationships, and by corollary governance structures, from the conventional model since depositors have a direct financial stake in the bank's investment and equity participations. In addition, the Islamic bank is subject to an additional layer of governance which is carried out by the Shari'ah Supervisory Board”

## **1.2 STATEMENT OF THE PROBLEM**

The Islamic Banking and Finance is said to be the alternative to the conventional finance and banking systems (Yaacob, 2012). To this end, the existence of Shari'ah Advisory Committee (SAC) or Shari'ah Supervisory Board (SSB) is one of the most important governance mechanisms of an Islamic Financial Institution (IFI) to ensure the Islamic Financial Institutions (IFIs) are compliance with Shari'ah (Fahmy, 2013). Also, (Yaacob, 2012) stated that it is argued that IFIs are the institutional vanguard of Islamic economics (Khan, 2000). Additionally, Abdullah and Pillai (2010 cf. Yaacob, 2012) have rightly stated that the “IFIs have greater fiduciary duties and responsibility to their stakeholders than conventional institutions”. IFIs must comply with the Shari'ah in all aspects of its operations and management. Therefore, *riba'* (usury or interest) is totally prohibited. This is a Quranic injunction. It also prohibits all transactions and contracts with the elements of *gharar* (uncertainty) and *maysir* (gambling) (Islamic Bank of Brunei Berhad, 2001; Karim, 1990: 34; Sayd Farook, 2007 cf. Yaacob, 2012). Also, the Shari'ah scholars who act as advisors grounded in

endorsement of all products and services of their respective IFIs, without whom the compliance of the product to the Shari'ah would be questionable. This critical role is indiscriminate to all financial products, be it banking, takaful, capital markets, wealth management and so forth (Fahmy, 2013).

Considering the above information's, one can categorically say that Shari'ah committee and Shari'ah review boards are geared towards ensuring that Islamic financial institutions products are ultimately Shari'ah compliant. It is based on this premise that this wholly qualitative study wishes to explore in depth the processes of Shari'ah review and Shari'ah report in Islamic Financial Institutions.

### **1.3 PURPOSE AND OBJECTIVES**

The purpose of this study is to establish the role and importance of Shari'ah committee and Shari'ah review in corporate governance of Islamic Financial Institutions excluding Islamic insurance companies or takaful companies. The findings of this study will provide better understanding of IFI's Shari'ah committee in Malaysia and their practices.

An exploratory study is conduct to achieve the following research objectives:

- 1- To identify the perceived role (s) and functions of Shari'ah committee in Corporate Govenance of Islamic Financial Institutions.
- 2- To ascertain the usefulness of Shari'ah report for Corporate Govenance of Islamic Financial Institutions.
- 3- To ascertain the usefulness of Shari'ah compliance review for Corporate Govenance of Islamic Financial Institutions.

## **1.4 RESEARCH QUESTIONS**

To attend above research objectives, the following research questions have been formulated and will be addressed by the research:

- A-1 What are the perceived roles of Shari'ah committee on Corporate Governance of Islamic Financial Institutions ?
- A-2 Which Shari'ah committee function is important for Corporate Governance?
- B-1 Why is Shari'ah Compliance Review conducted and presented?
- B-2 Are the objectives of Shari'ah Compliance Review important for Corporate Governance?
- C-1 Why is Shari'ah report prepared and presented?
- C-2 Are the objectives of Shari'ah Report relevant for Corporate Governance?

## **1.5 SCOPE OF RESEARCH**

The scope of this research is limited to Corporate Governance of Islamic Financial Institutions or Institutions that offering Islamic Financial products and services in Malaysia. The research attempts to explore the Shari'ah scholar's opinions and experiences from in-depth interview. The findings provide perspectives towards strong and effective governance of Islamic Financial Institutions.

## **1.6 LIMITATIONS OF THE STUDY**

The main limitations of this study are cost and time constraints. Undeniable this study has experienced several research limitations. Firstly, there is limitations due to the scarcity of literature review which raise some difficulties in formulating the

conceptual of Shari'ah governance framework. Secondly, the semi structure interview which based on Delphi method with Shari'ah scholars those who represent Islamic Financial Institutions and Shari'ah Advisory Council of Bank Negara Malaysia it was conducted based on convenience sampling and thus, limited only to several local and foreign banks participating in the Bank Central of Malaysia. Therefore, the findings of this qualitative research is intended to elicit the role/functions of Shari'ah committee, Shari'ah review and Shari'ah report as important organs, communication and instrument which are pertinent to corporate governance of IFIs in Malaysia. The study is not meant to be generalized but contextualized to specific Shari'ah scholar experiences in Malaysia.

## **1.7 THE STRUCTURE OF THE STUDY**

The Structure of the study is as follows. Chapter one mainly presents an overview of the study, background, statement of the problem, purpose and objectives, research questions, scope and limitations of the study. It outlines the whole orientation and the essence of the study in the area of corporate governance of Islamic Financial Institutions.

Chapter two provides the review of the literature on the corporate governance of the Banks. This chapter highlights the comparative overview of corporate governance principles and practices from both conventional and Islamic perspectives. Additionally, the chapter two discusses the conceptual definition and roles of both CG and CG of IFIs within the context of the financial services sectors. This chapter also discusses in context the two theories used in the current research as the theoretical framework for the study of corporate governance under behavioral theories on governance of firm. These theories are the agency theory and the stakeholder's theory.

The chapter elaborates the ethical value on corporate governance in Islam. As the current research represents a study from the Malaysia perspective, the development of Shari'ah corporate governance of Islamic bank in Malaysia is highlighted.

Chapter three provides a comprehensive analysis of the Shari'ah governance framework in Malaysia. This chapter briefly demonstrates a few key result areas for Shari'ah compliance in corporate governance of Islamic Financial Institutions and gaps in compliance research are identified, namely Conceptual Model.

The research methodology presented in this research is described in chapter four. This chapter describes the research design, the method of analysis are used to analyse the data. In addition, this chapter discusses the limitations of the quantitative methodology, relevant and purpose of the method. The validity and respondents of the study are also highlighted.

The results of the study are detailed in chapter five. Chapter five presents the empirical results of the Semi-Structure Interviews based on Delphi method with Shari'ah Committee members, Chairman of Shari'ah Committee members, Shari'ah Advisory Council (SAC) of Bank Central of Malaysia. Additionally, this chapter elucidates the extent of disclosure of Shari'ah governance practices through analysis of annual report.

The research finding derived from the empirical study based on that, chapter six presents a brief summary of the overall study and discussion of the findings. Additionally, a number of recommendations and suggestions for future studies are proposed.

A framework for this study has been constructed to assist in navigating the various parts and chapters. This is illustrates in figure 1.1 bellow.