Archives of Business Research – Vol. 8, No. 8
Publication Date: August 25, 2020
DOI: 10.14738/abr.88.8148.
Rahma, A. S. T., & Musa, D. H. S. (2020). The Application of the Corporate Governance in Management of Islamic Banks. *Archives of Business Research,* 8*(8). 123-137.*

The Application of the Corporate Governance in Management of Islamic Banks

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ABSTRACT

One of the most issues noticed by researchers and suggested from investors is Corporate Governance, addressing the need for company management control, dividing economical unit from its ownership and improving the performance of the board of managers, auditors, accounting system, internal control, and finally maintaining investors and stakeholders' rights. Using better managers in companies results in improvement of their performance. So the purpo of this paper comes to examine the determinants of the Islamic bank's product and services disclosure strengths and weaknesses of corporate governance, and suggest ways in which can be improved, the results reported across perspective and levels of analyses through, global, regional, legal systems, regularity quality and bank size. The results indicate that the strongest theme of corporate governance for Islamic banks in the sample is Transparency and Disclosure, followed by Internal Controls and External Audit. At the other extreme, the weakest corporate governance theme is Risk Governance, followed by Shariah Governance and the Boards of Directors.

Keywords: Corporate Governance, Islamic Banks, Management, Transparency, Disclosure

INTRODUCTION

There is a need for a careful analysis of current corporate governance practices in the Islamic banking industry. This analysis would be the basis for further work in the field of corporate governance by developing recommendations in the field of public policies that would result in practical steps to strengthen areas of corporate governance that turned out to be weak at the moment (The Secretary General of the General Council said, “For banks and Islamic financial institutions, Abdelilah Atiq).

It is well established that good corporate governance strengthens institutions and financial sectors, and in so doing contributes to building strong economies and economic growth.

Deficiencies in corporate governance were among the factors that contributed to the global financial crisis (GFC) of 2007–08. As a result, global standard setters such as the Basel Committee on Banking Supervision (BCBS) and the Organisation for Economic Co-operation and Development (OECD) have been updating and strengthening their guidelines on good governance practices (G20, & OECD. (2015). G20/OECD Principles of Corporate Governance. Group of Twenty (G20) and Organisation of Economic Co-operation and Development (OECD)).

The Islamic Financial Services Board (IFSB), which sets standards for Islamic financial institutions, published its Guiding Principles on Corporate Governance in 2006 as its standard IFSB-3. The Principles address, within the context of corporate governance, the distinct features of Islamic banks, such as the different relationship that they have with some of their stakeholders (CIBAFI and The World Bank have been working closely together to develop the Islamic finance industry under a Memorandum of Understanding (MoU) signed in July 2015. One of the first outcomes of the MoU was a joint conference organized in Amman, Jordan in September 2015, titled "Corporate Governance for Islamic Financial Institutions: Lessons from Recent Global Developments.")

The General Council for Islamic Banks and Financial Institutions (CIBAFI) is an international organisation established in 2001 and headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organization of Islamic Cooperation (OIC). CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 120 members from more than 32 jurisdictions, representing market players, international and intergovernmental organizations, professional firms, and industry associations, CIBAFI is recognized as a key piece in the international architecture of Islamic finance (Casey, P. (2015). Comparative Study on the Implementation of Selected IFSB Standards. Kuala Lumpur: Islamic Financial Services Board (IFSB) p.34).

In its mission to support the Islamic financial services industry, CIBAFI is the leading industry voice advocating regulatory, financial, and economic policies that are in the broad interest of our members to foster the development of the Islamic financial services industry and sound industry practice. CIBAFI is guided by its Strategic Objectives, which are:

1. Policy, Regulatory Advocacy,
2. Research and Publications,
3. Awareness and Information Sharing and
4. Professional Development

We hope that this study will be read widely within the Islamic financial industry, by individual institutions seeking to improve their own governance practices and by regulators who are looking to strengthen the financial systems that they oversee. But we also hope that it will be read widely outside the Islamic financial industry. As Islamic banks become an increasingly important sector within the global banking community, it is important that conventional financial institutions, and

their regulators, policymakers, and stakeholders are able to understand the strengths and weaknesses of the Islamic banking sector, and also to see the progress that it is making

Islamic banking is an Ethical Banking System, and its practices are based on Islamic (Shariah) laws. Interest in completely prohibited in Islamic banking. It is asset based financing, in which trade of elements prohibited by Islam are not allowed. The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Today, Sharia-compliant financial assets are estimated at roughly US$2 trillion, covering bank and non-bank financial institutions, capital markets, money markets and insurance ("Takaful") (The World Bank Group is working with Islamic finance to reduce poverty, expand access to finance, develop the financial sector, and build financial sector stability and resilience in client countries.)

Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering solid evidence that Islamic finance has already been mainstreamed within the global financial system – and that it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity (Islamic Finance -March 31, 2015).

On the other hand "Corporate governance can be defined as"a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"(G20 and OECD 2015).

The study covered Islamic banks only. It is possible that the patterns and issues identified will in many cases also be present in conventional banks in the countries from which the sample is taken. However, it is not possible to draw conclusions on this point from the data available.

The paper is organized as follows. After introduction with the aim of the paper, conceptual &theoretical framework, the concept of methodology, the corporate governance and fiancé the research method and results then the conclusion & recommendations and fish with the references and the paper includes some figures and tables.

THE AIM OF THE PAPER

This paper is based on the results of research conducted on 77 Islamic banks in 22 countries. Twenty-eight of these banks are based in the Gulf Cooperation Council（GCC) and another thirteen are based in the non-GCC ,Middle East and North Africa .Twelve banks are based in South Asia,and ten are in the East Asia and the Pacific region.Eight banks are based in Sub-Saharan Africa and six are in Europe.(Table A.8,in Appendix A,gives fuller details.)

In today's global economy, the success of national economy depends on the crucial role of organization, competitiveness, transparency and governance structure which operate within her territory, since organizations are the entities that create economic values (ICN 2009).

This paper discuss the corporate governance for Islamic financial institutions, lessons from recent global developments. That needs for a study analysis for current corporate governance practices within the Islamic banking industries. Such analysis will suerfe as basis for further for work in the

field of corporate governance by generating policies recommendations that would then Prompt practical steps

Numerous studies have identified weak governance within financial institutions as a factor that contributed to the global financial crisis of 2007-08.Conversely, studies also indicate that well-governed institutions perform better, have increased access to finance, and have a lower risk profile than poorly governed institutions. The benefits of good governance extend beyond individual institutions to the broader economy, reducing economic instability and enhancing the prospects for long-term growth.

These international governance standards are applicable to Islamic financial institutions, but there are governance issues that are particular to these institutions that are not covered in the international standards. Examples include the treatment of investment account holders(a class of investors that does not exist in conventional banking)and the organization of Shariah governance. Standard setters such as the IFSB have published guidance on corporate governance and related issues(such as risk management)in Islamic financial institutions.

A Corporate Governance Index was constructed by identifying six different themes of corporate governance (such as Board of Directors or Risk Governance), and within each theme six individual criteria were formulated based on international standards and other authoritative documents. Each bank was assessed against the items making up the CGI based on content analysis of its annual report and website. A bank could score a maximum of are 36 points if it met the criteria on all 36 individual Here items. The results from the CGI were then analyzed at an aggregate level and at the level of each theme and item. They were also analyzed with a view to identifying any patterns based on bank size, regional differences, or other external factors such as the legal system in which a bank operates and the quality of 28t015 the regulatory environment. (Table 1., in Appendix A, gives fuller details.)

The banks included freestanding Islamic banks, subsidiaries and Islamic windows, depending in each case on data availability. Those entities that are parts of larger banks or groups may rely on their parents for some aspects of governance(e.g. internal audit).It has not been possible to assess how far this may have affected the results.

The study also subdivides banks from four different perspectives:

1- the region in which they are based;
2- the legal system under which they operate;
3- the quality of the broader regulatory system under which they operate
4- their asset size

CONCEPTUAL AND THEORETICAL FRAMEWORK

The term corporate governance has been identified to mean different things to different people. Magdi and Nadereh(2002) stress that corporate governance is about ensuring that the business is run well and investors receive a fair return.

Prior studies by OCED(1999) provide a more encompassing definition of corporate Governance. It defines corporate governance as the system by which business corporations are directed and

controlled .The corporate governance structure specifies the distribution of rights and responsibilities among different stakeholders in the corporation such as: the board, managers, shareholders, customers, employees, among others, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the companies' objectives are set and the means of attaining these.

OBJECTIVES AND MONITORING

In placing corporate governance on a pedestal which reveals the relationship between providers of finance and corporate organizations, Shleifer and Vishny (1997) are of the opinion that corporate governance deals with the ways suppliers of finance to corporations assure themselves of getting a return on their investments. Corporate organizations need to ensure that managers do not misappropriate the capital or invest in bad projects

Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interest between stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws ,and institutions which have impact on the way a company is controlled. Effective corporate governance reduces "control rights" "shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects(Shleifer and Vishny,1997).

Thus,the relationships of the board and management, according to Al-Faki (2006),should be characterized by transparency to shareholders, and fairness to other stakeholders .This will in effect mitigate the agency costs as predicted by Jensen and Meckling(1976).

The implications of the above definitions are that corporate governance is a system of corporate management and control to satisfy the strategic goals of all stakeholders while complying with the legal ,ethical and other environmental needs of the society.

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THE SCOPE AND METHODOLOGY OF THE STUDY

The aims of the study are to assess the status of corporate governance in Islamic banks, review where it is strong and where it is weak, and suggest ways in which it can be improved.

The financial sector plays an important role in countries' economies and contributes to economic growth and development .Both theoretical and empirical studies suggest that proper corporate governance practices implemented by institutions facilitate access to finance, reduce perceived risk by investors and thereby the cost of capital ,improve operational performance ,and increase institutions' resilience against external shocks.

As a result ,well-governed institutions not only benefit from better performance and soundness but they also promote overall economic development. While corporate governance affects the efficiency of companies and the overall economic performance at the national level, its status in banks and financial institutions also affects capital allocation in the economy. However, financial intermediation is inherently risky and the sector can generate negative externalities that can introduce instability in the economy if the risks are not well managed. An important aspect of bringing stability and efficiency to the banking sector is to require good governance practices and structures.

While almost all corporate governance principles developed by international organizations such as the OECD and the BCBS also apply to institutions providing Islamic financial services, there are some additional governance issues that arise in Islamic financial institutions .A key distinguishing feature of Islamic financial institutions that makes them different from their conventional counterparts is that they follow the principles and values of the Shariah. There is, therefore, a need to have governance mechanisms in place to ensure that there are adequate corporate governance controls that assist in ensuring operations and products of Islamic banks comply with the Shariah. There are also governance issues around the protection of investment account holders, whose interests are not identical with those of depositors in a conventional bank. Some of these issues had been addressed in standards developed specifically for the Islamic finance industry.

1. CORPORATE GOVERNANCE AND FINANCE: CONCEPTS AND LINKAGES

Corporate governance can be thought of as "a set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set ,and the means of attaining those objectives and monitoring performance."18 Corporate governance can be strengthened by market discipline because market participants who have a stake in the institution will serve as monitors .Their ability to monitor will depend on the quality and quantity of information they receive, which in turn will depend on the quality of accounting standards and practices.

Though the primary responsibility for good governance rests with Boards of Directors, who represent the shareholders , and senior management, there are several external factors that have a direct influence on the governance of corporations in general and financial institutions in

particular. The key external factors that affect corporate governance in financial institutions can be classified into three broad categories . First is the overall environment and the economic and financial systems under which financial institutions operate, including the financial laws and regulations and overall legal and accounting systems. The second group of factors that affect corporate governance includes the public institutions that directly or indirectly regulate, monitor, and supervise corporate governance practices. These would include the supervisors and in some cases trade associations. While both may set standards, it is supervisors who monitor the overall operations to ensure a stable and sound financial system. Finally, the key external players that have relevance to corporate governance in financial institutions are the bond holders(or sukuk holders),depositors ,and external auditors. Key stakeholders in Islamic banks also include IAHs, who in principle share the risks on the investments made with their money(IFSB 2014).Because the Sukuk holders and depositors and IAHs can monitor the activities of the banks only indirectly, the external auditors play a critical role in evaluating the accuracy of the quality and quantity of information provided by the management.

Many studies have identified weak governance in financial institutions as a key factor that led to the global financial crisis . Thus, following the crisis, different stakeholders have paid considerable attention to sound governance and management of financial institutions .In this regard, Pillar II of Basel III has been strengthened with an Enhanced Supervisory Review Process for Firm-wide Risk Management and Capital Planning .One way this has been done is by adding supplementary requirements on governance and risk management . In 2012,the BCBS revised its Core Principles for Effective Banking Supervision, adding a new Core Principle on corporate governance, with associated assessment criteria(BCBS 2012) , and in 2015 it updated and expanded its Corporate Governance Principles for Banks, which had first been published in 2006.The IFSB in 2015 published its Core Principles for Islamic Finance Regulation （Banking Segment)(IFSB-17),which includes a Core Principle on corporate governance based on the relevant BCBS Core Principles, but modified for the special circumstances of Islamic banks.

2. THEMES IN CORPORATE GOVERNANCE IN ISLAMIC BANKS

Identifies the governance structure as being composed of the board of directors and senior management . Given the distinct features of Islamic financial institutions arising from their commitment to the principles of the Shariah, corporate governance in these institutions encompasses certain additional stakeholders and issues that may not be found in conventional financial institutions BCBS(2015) . In general , the literature on corporate governance from an Islamic perspective has focused on issues relating to Shariah rulings and governance structures. These include studies related to controls on Shariah compliance, traditional concepts of governance, human character and decision making, investment account holders Shariah Supervisory Boards, profiles of Shariah scholars, and Shariah review and audit. Only a few attempt to explore the implementation of corporate governance in Islamic financial institutions based on international standards of corporate governance(Hawkamah 2011)or indicators.

In addition, the data used in these analyses are usually comprised of case studies and some small samples. As a result, there was a need for a much more robust study to investigate the status of corporate governance practices of Islamic banks, considering various dimensions of the corporate governance framework. After scanning the literature on corporate governance in general and

governance issues in Islamic finance in particular, this study considers the following six themes of corporate governance.

Board of Directors

By providing independent oversight of managers, the board of directors plays an important role in guiding banks and financial institutions toward sound management and operations. The BCBS(2015)identifies the key responsibilities of the Board as the "bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. "To have effective oversight, BCBS(2015)recommends that the board should have a sufficient number of independent directors and that the directors should collectively have the qualifications, background, knowledge, skills, and expertise to understand the risks and complexities of the bank and to guide the bank in a sound and prudent manner. The chair of the board plays an important role by providing leadership and ensuring the proper functioning of the board(BCBS 2015).The chair should be an independent or nonexecutive board member and ensure appropriate checks and balances. Although BCBS 2015 does not explicitly recommend that the position of chair and chief executive should be eparated, it is generally considered good practice for this to happen(Ard and Berg 2010).

Board Committees

BCBS(2015)recommends that the board should establish different board committees so that specific issues can be dealt with in a focused manner. The size and composition of the board committees will depend on factors such as bank and board size. Among others, the BCBS recommends establishing the following committee. The role of the Risk Committee is to advise the board on the bank's risk appetite and oversee the implementation the bank's risk management framework in line with the risk appetite statement and in coordination with the Chief Risk Officer .The committee should be headed by an independent director

Internal Control and External Audit

The responsibility of an Audit Committee is to frame policies and provide oversight on and financial reporting and internal audit and to interact with internal and external auditors .In order to maintain the effectiveness of the committee, it should be headed by an independent board member. Preferably ,all other members should be independent and non-executive and have experience in auditing and financial reporting.

A bank's risk profile can change quickly. In such situations, weak internal controls can lead to instability(Ard and Berg 2010).A bank's internal audit department and its external auditors play important （and different)roles in ensuring that a bank's internal controls are effective.

Principle 10 of BCBS(2015)relating to internal audit states :"The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank. "The chief internal auditor should report to the board or its Audit Committee. The internal audit department is responsible for carrying out risk-based and general audits and reviews in order to strengthen the overall governance and risk governance framework by ensuring that all policies and processes are applied consistently throughout the organization. In order for the internal audit to function

effectively and independently, it should be given access to all relevant information and records of the organization.

Realizing that one of the weaknesses of governance that led to the GFC was the quality of external audits, BCBS(2014)published a document focusing on ways that external audit could be improved. Good quality audits identify weaknesses in financial reporting and internal controls so that remedial measures can be taken, provide helpful input to supervisors, and also help instill market confidence in financial statements.

A bank's Audit Committee is responsible for ensuring that the financial statements are audited by an independent external auditor.

Risk Governance

The importance of risk management for financial institutions became particularly apparent during the GFC (Global Financial Crises-2008). Directors paid insufficient attention to risks and sometimes did not understand the risks that their banks were facing or how the risks had been changing.

Recognizing the weaknesses of risk management practices in financial institutions that led to the global financial crisis ,the Corporate Governance Principles for Banks issued by BCBS(2015)put a lot of emphasis on risk governance. Of the 13 corporate governance principles identified by the BCBS, three specifically relate to risk management. Principle 6 concerns the risk management function, Principle 7 deals with risk identification, monitoring and control, and Principle 8 relates to risk communication. Other principles also refer to other aspects of risk management. For example, one of the responsibilities of the Board specified in Principle 1 is “risk appetite, management and control" and Principle 3,which deals with the Board's structure and practices, recommends establishing a Risk Committee (- BCBS. (2015). Corporate Governance Principles for Banks. Basel: Basel Committee on Banking Supervision (BCBS)).

Shariah Governance

Sound Shariah governance involves instituting structures, controls, and processes to ensure that Shariah principles and requirements are fulfilled in all contractual, procedural, and operational aspects of an Islamic financial institution from the perspectives of different stakeholders(Ahmed 2011). While an Islamic bank will have various organs and processes in the governance system,a key component of this system is Shariah supervision that ensures that Shariah requirements are fulfilled. In order to reduce Shariah compliance risks and ensure that the Islamic financial institutions fulfil their obligations of conducting business according to underpinning operational Shariah principles and licensing requirements, the regulatory bodies can also choose to provide Shariah governance frameworks and guidelines.

Transparency and Disclosure

Information disclosure enables market actors to monitor banks' activities, which can lead to stronger governance through market discipline(Mehran and Molineux 2012).Principle 12 of BCBS (Basel committee on banking supervision) (2015)on disclosure and transparency recommends that banks should provide adequate and relevant information to their shareholders, depositors, market participants, and other stakeholders.

It recommends applying the transparency section of the OECD Principles on Corporate Governance, it suggests publishing timely and periodic reports that provide comprehensive information on different aspects of corporate governance and risk exposure and management. With regard to transparency and disclosures in Islamic banks,IFSB-3 and IFSB-420 provide specific guidelines.

For example,IFSB-4 provides details of the issues that need to be disclosed by Islamic financial institutions, which include financial and risk disclosure principles, disclosures for investment account holders, and disclosures on general governance and Shariah governance, Similarly, Principle 4 of IFSB-3 states that Islamic financial institutions should make" timely disclosure to IAH and the public of material and relevant information on the investment accounts that they manage."

Table 1: Items per theme in the corporate governance index

No	Corporate Governance Themes	Items
1	Board of Directors	6
2	Board of Committees	6
3	Internal Control and External Audit	6
4	Risk Governance	6
5	Shariah Governance	6
6	Transparency and Disclosure	6
Aggregate		36

CORPORATE GOVERNANCE INDEX:

Themes And Framework

The elements that were used to develop the CGI were chosen to reflect regulatory perspectives identified in regulatory guidelines such as those cited above. In identifying the factors that would comprise the index, the study took into consideration that information used should be publicly available in reports or on websites.

The CGI can be viewed at three different levels: in the aggregate, by theme, and by individual items.The aggregate CGI comprises the six themes identified in Table A.1,Each theme in turn has six items that are identified from the literature and regulatory guidelines. The approach taken is similar to research that uses content analysis, whereby each item can take the value of 1 or 0 depending on whether or not it is present．（Haniffa and Hudaib 2007).Given this framework, each theme can have a maximum score of 6.The highest value of the aggregate CGI can therefore be .

As data are collected by using content analysis of annual reports and webpages, the process requires identifying the key words and codes under different themes that are searched in texts and documents. Thus, the key words and elements representing each item and the scoring criteria need to be specified. Some elements of judgement were inevitably necessary in choosing which items to select from those in principle available, and also in translating some general statements of principle (for example on frequency of meetings)into Specific objective criteria.

The items included in each theme, the relevant Supporting literature, and the scoring criteria for different themes are summarized in Tables A.2-A.7.

Research Method (Data Collection)

The population of the study consisted of all Islamic banks operating globally .the sample for the study was based on the following criteria . countries where Islamic banking was significant share of the banking scoter were identified by using country –level information provided in the (IFSB,S) ISLAMIC Financial Services Industry Stability Report 2016.to keep workload manageable within the stipulated time, it was decided to take a sample of five largest banks from the 15 countries that have the highest bank Islamic banking share of the total banking assets.

Thus the total sample would include 75 banks . However , searching for annual reports revealed that some countries had fewer than five Islamic banks and in other cases information was not available .Other countries such as Indonesia ,Turkey ,Kenya, and Nigeria were deem as important for the Islamic financial services industry and were therefore added to the sample . The sample of the study constitute a total of 77 Islamic banks , including .free-standing banks, subsidiaries and Islamic windows .Table A.1 shows the distribution of the banks in the sample across different regions**.**

Table.2: Islamic Banks in the sample by region and country

No	Region	Banks From Which Countries	Number Of Banms In This Group
1	East Asia and Pacific	Indonesia, Malaysia	10
2	Middle East and North Africa – Gulf Cooperation Council(GCC)	Bahrain, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Oman	28
3	Middle East and North Africa – Non –GCC	Egypt, Iran, Jordon, Yeoman	13
4	South Asia	Bangladesh, Maldives, Pakistan	12
5	Sub-Saharan Africa	Kenya, Nigeria, south Africa, Sudan.	8
6	Europe	Bosnia, Turkey, United Kingdom	6
7	Total number of countries and banks	22 countries	77 banks

Source: CIBAFI and The World Bank

The total assets of the banks used in the sample were $1.381 trillion. This amounts to 92.8 percent of the assets of the Islamic banking industry, which the IFSB (2016) put at $1.496trillion in 2015.

Data on Islamic banks were collected using two main sources. First, content analyses of the most recent available annual reports were carried out to search for the relevant corporate governance indicators identified above. Second information was sought from the webpages of relevant banks to gather additional information. To improve the reliability and consistency of the data, information on the same bank was collected by researcher. The results were cross –checked to insure not only that most of the relevant data had been captured, but also to arrive at the final consistent data that were to be used for analyses.

It should be noted that content analyses capture only the information that is revealed in the documents and webpages from wher the data is collected. This method has the limitation of not

capturing the actual practice when some element of governance that are practiced are not in theses sources.

THE RESULTS

The results indicate that the strongest corporate governance theme for Islamic banks in the sample is Transparency and Disclosure, followed by Internal Controls and External Audit. At the other extreme, the weakest corporate governance theme is Risk Governance, followed by Shariah Governance and the Board of Directors.

The study proceeded first by developing a conceptual framework for a Corporate Governance Index for Islamic financial institutions based on relevant theoretical and empirical literature and different standards on corporate governance. The empirical part of the study uses data collected from a sample of Islamic b-anks from different regions of the world. The framework of the CGI and the methods to collect and analyses data are presented below.

Although a key feature of the discussion on corporate governance relates to protecting shareholders' rights, this study focuses on the aspects of governance that can contribute to sound management and bring about healthy growth and stability in the financial sector. This is in line with the BCBS Corporate Governance Principles for Banks(BCBS 2015),which focus less on the rights of shareholders than on the need to achieve robust and transparent risk management and decision-making and, in doing so , uphold the safety and soundness of the banking system. The rights of shareholders are, however, a major feature of the G20/OECD Principles of Corporate Governance(G20/ OECD 2015).

The low score of the Risk Governance theme (average score of 2.9, amounting to 48.0 percent) can partly be explained by the fact that it is a relatively new theme that has come to prominence since the global financial crisis. The regulatory focus on governance and risk has been enhanced by Pillar 2 of Basel III and was addressed in detail by the Financial Stability Board in 2013

This study is based on the results of research conducted on 77 Islamic banks in 22 countries, Twenty-eight of these banks are based in the Gulf Cooperation Council, (GCC) and another thirteen are based in the non-GCC Middle East and North Africa. Twelve banks are based in South Asia, and ten are in the East Asia and the Pacific region. Eight banks are based in Sub-Saharan Africa and six are in Europe

CONCLUSION

The study examined the relation between corporate governance and Islamic financial institution mainly the practices in Islamic bank during 2017. The study highlighted the importance of the need to study the reality of Islamic financial institutions, in particular the general council for Islamic banks and financial institutions(CIBAFI) as an international organization which established in 2001 and its headquartered in the King of Bahrain ,which is mission to support the Islamic financial services industry.

The analyses is carried out for different levels of (CGI) in aggregate by theme ,and by item, and provides comparative analyses from different perspectives .the results reveal information on the

relative strength and weaknesses of individual components government for different financial institutions across different regions.Datd are presented in numerical and graphic form.

Finally the study proceeded first by developing a conceptual framework for a Corporate Governance Index for Islamic financial institutions based on relevant theoretical and empirical literature and different standards on corporate governance. Furthermore, the CGI is reported from five different perspectives to shed light on the factors that can affect corporate governance in Islamic banks.

Recommendations

1. The area where Islamic banks are most in need of improvement is Risk Governance.
2. Among the other findings of the study are that banks that operate in predominantly common law or civil law jurisdictions score more highly than those that operate under parallel jurisdictions (Islamic law and common or civil law
3. the study recommends work to implement international corporate governance standards, including those that have been published by IFSB
4. The study also recommends strengthening corporate governance frameworks at the national level, drawing on international standards and the experience of jurisdictions that have already done so, and recognising the specific features of Islamic banks. The standard-setters, multilateral institutions, and other stakeholders can help to support this process
5. The study recommends that more initiatives should be taken to enhance awareness of the principles of good corporate governance and of the benefits that can be gained by implementing them
6. The independence and competencies of the Board of Directors need to be enhanced, through the involvement of more independent directors
7. The study recommend should also be more female directors.
8. Shariah governance is another area of relative weakness, partly reflecting the fact that not all jurisdictions have implemented provisions at national level; those that have not should do so
9. Study must recommendations include enhancing disclosure on matters related to internal audit and internal controls, and on Shariah-related matters

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