

Corporate governance in global Islamic Financial Institutions (emirates Islamic bank is the case study)

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Abstract

Corporate governance (CG) can be simply defined as a system of law and sound approaches by which corporations are directed and controlled. CG broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed.

If we will back to corporate governance history, it can be traced back to the emergence of the corporation, whereby the owners are separated from the management. However, it becomes an attractive issue due to the financial crisis.

Key words: Code of ethics, corporate Governance, Sharia, corporate value, financial institutions

1. Introduction

Many developed countries such as The United States of America and United Kingdom and developing countries such as Malaysia and Indonesia as well as the international organizations such as OECD and Common Wealth association have provided the guidelines and the codes for the best practices of corporate governance. Similarly, due the emergence of the Islamic finance industry, there is a need for the Shariagovernance guidelines to mold the Islamic financing practices. It has been well known that conventional financial system is based on the interest, uncertainty and gambling which are prohibited in Islam. As an alternative, Islamic financing system has been proposed by the Muslim scholars and its growth is tremendous since it has first been introduced. Islamic finance industry has been widely penetrating not only in Muslim countries such as Malaysia, Indonesia and GCC countries but also in non-Muslim countries such as Sri Lanka and Singapore. Since the emergence of the Islamic finance industry is to implement Shariacompliant financing practices, the role of Shariagovernance guidelines play a significant role in the industry to ensure that it meets the objective of the Islamic financial industry.

The prevailing Shariagovernance guidelines are issued by AAOIFI, IFSB and BNM. We believe that the Shariagovernance guidelines are the tools used to meet the unique needs of the Islamic financial industry.

2. AAOIFI Sharia Governance Standard

There are 7 standards under governance standards for Islamic Financial Institution which issued by AAOIFI.

- (1) ShariaSupervisory Board: Appointment, Composition and Report,
- (2) ShariaReview,
- (3) Internal ShariaReview,
- (4) Audit & Governance Committee for Islamic Financial Institutions,
- (5) Independence of ShariaSupervisory Boards,
- (6) Statement on Governance Principles for Islamic Financial Institutions,

(7) Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions

The light has focused on having what called good corporate governance (GCG) especially after the last financial debacle around 2008-2009. Actually, corporate governance had always been important before, but the concerns were seen as more significant to developing and/or emerging economies than those in Western developed economics.

Farouk Abdullah Alwani reviews the state of FCG in Islamic institutions.

Review of 2014.

Corporate governance basically is a qualitative issue not easily measured. However, it still has quantitative implications as seen in many cases of banking and financial crisis affecting many countries in the world. A recent initiative to assess the state of corporate governance in Islamic finance has been undertaken and jointly by the ICD, the private sector development arm of the IDB, and Thomson Reuters. The report is called the Islamic Finance Development Indicator (IFDI) and started its first publication with IFDI 2013. Eighty-two (82) countries were included in the report consisting of all OIC countries and non-OIC countries with the presence of Islamic financial institutions (IFIs).

Corporate governance is one sub-indicator within the governance indicator discussed in the report. Other indicators are quantitative development, knowledge, corporate social responsibilities, and awareness.

It is reported that the Central Bank of Kuwait has brought governance rules in line with international best practices. Oman on the other hand, has been credited on the strength of its regulation on financial reporting and disclosure requirements. Oman's Islamic banking regulatory framework (IBRF) is said to closely follow AAOIFI standards for financial institutions, particularly for Islamic banking.

There are three Muslim minority countries (Sri Lanka, the UK and Singapore) included in the top 10 list of IFDI 2014 and two other Muslim minority countries (South Africa and Australia) within the top 15 countries (top 10 in previous years) Muslim minority countries such as the

UK, Singapore and Australia basically benefit from their already strong corporate governance structure regulating conventional finance.

Pakistan is among the newcomers in the top 10. It revised disclosure requirements for Islamic banks in 2013. It was reported that it aimed to standardize and streamline disclosure of annual and quarterly financial statements.

Preview of 2015

Corporate governance is an important element for the development of Islamic finance industry. There is no other option for the Islamic finance industry but to continue developing and improving its state of corporate governance in 2015.

Islamic financial institutions are based on the foundations of Islamic religious ethics. Hence their sound governance from an ethical and religious (Sharia) perspective is crucial to their proper functioning (CISI & ESA, 2010). Sharia rules that Allah's rights, if breached by mankind, may be forgiven by Him. However, people's rights, financially or otherwise, if infringed, cannot be forgiven save by the people themselves, and Allah will not interfere at all (CISI & ESA, 2010). Therefore, in Islamic finance, corporate governance is very important since it essentially functions as means to establish fairness for all stakeholders and to realize the benefits to the people.

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By taking **Emirate Islamic bank** as an example to give better look of each standard.

The management of Emirates Islamic Bank is committed to build a dream bank in the UAE in the 21st century. They are interested to develop a unique bank with fresher, smarter and exciting banking services for their customers with Hilal banking services. Emirates Islamic Bank was launched in 2004 in the UAE as the Islamic bank offering services to their customers

with highest standards. The bank is committed to offer unique banking services meeting the requirements of their customers meeting Sharia compliance services. Emirates Islamic bank always designed and developed highest banking standards, setup Sharia Board and offered vast range of products and services to their customers. They always designed unique banking services with smart banking solutions meeting the requirements of large corporations associated with their banking services. The commitment of Emirates Islamic Bank's management is to follow Sharia banking principles by offering different banking services from conventional banking in the UAE market. They adopted unique Islamic banking financing methods including Ijarah, Murabaha and Salam. The management of Emirates Islamic Bank is highly focused to avoid uncertainty in offering transactions and deposits to their customers in the United

The mission of this UAE based national Bank 'Emirates Islamic Bank' is to play its role in the national growth and prosperity by enhancing the positive profile of Islamic banking within the country and worldwide by creating a value for their stakeholders.

The vision of Emirates Islamic Bank is to set new standards in the Islamic banking in UAE by providing market based banking solutions to their customers and redefining the Islamic Banking market across the world.

Corporate Values of the Bank

1. Principle:

Emirates Islamic bank always committed to offer best services to their customers along with honesty and integrity meeting their principled values. The bank makes every interaction with their customers based on honesty and integrity. They believe on providing respect to their customers by taking complete responsibility and accountability. Emirates Islamic Bank is highly committed in doing the right things for their customers meeting Sharia compliant issues. They do the banking services that are right and based on performance, consistency and reliability.

2. Professional:

The bank creates proactive professionals in offering banking services to their customers. Emirates Islamic Bank anticipates what their customers need in Sharia compliant banking services. The bank is committed to answer their customer questions promptly and efficiently by solving their problems on the spot. It is the true mark of professionalism and they can effectively respond, advise, inform and meet the requirements of their customers. They actively do what is needed by their customers by anticipating what they need and giving their customers the best valued services (Gray, 2010, pp.28).

3. Progressive:

Emirates Islamic Bank believes in offering improved banking services with a cutting edge innovation at the convenience of their customers. They have developed a welcoming environment with smart and competent staff members and progressive banking services meeting their customer desires. The management of Emirates Islamic bank have always adopted principled, valuable and customer oriented services to make banking simpler, faster and easier (Gray, 2010, pp.26).

4. Partnership:

The bank believes in creating and developing partnership with their customers. It means that bank works meeting the requirements and ambitions of their customers. The management of Emirates Islamic bank is committed to provide best banking services to their customers whether they are students, professionals, businessmen, married or unmarried. Emirates make things happen what their customers need. Emirates Islamic Bank is a bank that values your preferences and it always helps their customers to make things happen (Kasim, Nuhtay and Salman, 2013, pp.29).

Emirates Islamic bank is a Sharia Compliant bank and the corporate culture of the bank is based on offering Halal Banking services and initiatives in their banking products and services. The corporate social responsibility is fundamental and at the heart of their banking services. It is also evident in their mission, vision, corporate business strategy and their

banking operations throughout the UAE. In 2013, the management of the bank communicated their corporate social responsibility by addressing the CSR issues of their relevant community, meeting compliance standards, adopting fair and impartial banking employment practices, taking complete responsibility of products and services offered and playing their role in the economic development of the UAE (Gray, 2010, pp.38). Emirates Islamic Bank is a Sharia compliant bank and they are obliged to offer Islamic banking services to their banking customers throughout the UAE. Their investment portfolio and invested amounts are based on Islamic principles and Islamic values. The bank has created a common investment pool where investors amounts are deposited directly and the customers are updated about the performance of investments on regular basis.

The management of the bank knows that without active involvement and participation of community members, they can't achieve their basic objectives of corporate social responsibility (CSR). In meeting their corporate social responsibility cause, Emirates Islamic Bank provides complete help for the development of their national sports with official responsibility of sponsoring UAE's president cup. The bank offers different types of charitable work in understanding with different corporations working throughout the UAE. The bank is actively offering their support for Dar Zayed Foundation, Al Jalila Foundation, Red Crescent and many more others organizations in keeping their Sharia compliant principles as the heart of their banking services (Kasim, Nuhtay and Salman, 2013, pp.18).

The Board of directors of Emirates Islamic bank is completely responsible to create and develop a strong working relationship with their shareholders and other stakeholders. By developing such a sustainable value, the bank can deliver sustainable value through highly effective banking services. The Board and the bank's committee have continuously demonstrated ethical leadership and promoted the vision, mission and purpose of their banking services to be highly effective in their corporate services (Gray, 2010, pp.38).

The main objective of their corporate governance and framework is to enable the Board of directors to create a balance in overseeing and identifying strategic counsel roles and ensuring that regulatory requirements are properly met with risk tolerance policy of the bank. The Board of directors of the bank is highly committed to uphold true values of good

governance in Islamic banking services based on values of responsibility, accountability, transparency and complete fairness (Kasim, Nuhtay and Salman, 2013 pp.16).

The Board of Emirates Islamic bank embraces best Islamic banking services meeting international standards and adopting best approach to ensure the implementation of their Corporate Governance Framework. This implementation of the corporate governance approach of the bank reflects how the management of the bank is committed to mature its strategy going forward.

Role of the Board can never be ignored to ensure the Corporate Governance of the bank is successfully implemented. It is the principle responsibility of the bank to ensure the promotion of long term success of the bank by creating and delivering sustainable shareholder value.

The role of board members is to meet the challenges of the market to enhance the confidence of their shareholders and other stakeholders. Their role is very challenging and the board members are responsible to foresee and monitor the success of the bank in delivering agreed strategy within the risk appetite and control framework of the Board of the Emirates Islamic bank (Gray, 2010, pp.32).

The management of Emirates Islamic Bank has created and developed an engagement between the Board and its executive members. The Board and Executive management attends Board and Board Committee meeting whenever necessary to ensure Sharia Compliant principles of the bank are strictly followed and their customer's confidence is protected on their banking services (Kasim, Nuhtay and Salman, 2013, pp.13).

The roles and responsibilities of the Audit committee of the Board is to ensure that the bank has complete control environment on their Islamic banking functions throughout the UAE and it is successfully controlling and complying with governing laws and regulations.

The roles and responsibilities of Human resource Committee Board is to regularly review and human resource management policies of the bank and ensures that they are complying with the applicable laws and legislations of the bank. The Human Resource Committee is also

responsible to review and approve the compensation systems, packages and the grading structure of the bank. They must also ensure to train, promote and compensate their employees effectively with highly developed and sustainable employee development programs within the culture of the bank (Gray, 2010, pp.18).

The Fatwa and Sharia supervisory board is appointed in line with the Articles of the bank to ensure the products and services of the bank are compliant with Sharia banking. The Sharia Board is based on Islamic Scholars and they have a strong reputation and experience of Sharia rules and regulations, economic and banking systems. The Sharia Board is also responsible to offer their services to direct, control, review, and supervise the banking activities to ensure that their products and services are in compliant with Islamic Sharia rules and principles. But, their services are not limited to only supervise and control the innovative Sharia compliant products and services. The Board can issue Fatwas on any matter proposed by the progressive units of the bank and they ensure that Sharia auditors also comply with these fatwas. All the transactions of Emirates Islamic bank are conducted based on Islamic Sharia principles by successfully analyzing the contracts and agreements regarding the transactions of the bank (Gray, 2010, pp.12).

The corporate social responsibility and Islamic values have basic points in common to work for the betterment of their respective societies and community members. The corporate social responsibility (CSR) values are central to Islam as the Holy Prophet (Peace be Upon Him) laid down the foundations of Islam based on notions similar to Corporate Social Responsibility in the society that are similar to the social responsibility values of the Western societies. But, the discussions on CSR are largely based on the orientation of the Western democratic societies (Kasim, Nuhtay and Salman, 2013 pp.23). It lacks a comprehensive concept of corporate social responsibility that the Western societies have adopted by ignoring the wider perspectives of CSR that should be positioned in a society. Furthermore, the notion of Corporate Social Responsibility (CSR) and justice in the society is considered as the integral part of the Islamic society. The Islamic philosophy is rich in the concepts pertinent to the corporate social responsibility that are based on Shariah compliant rules, regulations and principles derived from the Holy Quran and Hadith and these perceptions that not been synthesized formally to

present a very systematic model with the explicit notion of CSR considering the Islamic values in mind (Jawed, 2007, pp.34). Numerous social, economic and cultural pressures weaken ethical codes and corporate social responsibility because the principles are corporate social responsibility is focused on the welfare and development of the whole society. These pressures have emerged and deeply rooted in different societies due to enhance materialistic secular point of view of those societies. But, there is a strong relationship with the Islamic values and the corporate social responsibility. Different societies, especially the Islamic societies can change these materialistic views that are perceived in the material forms (Khokher, 2009, pp.46). The non-materialistic and spiritual dimensions help the humanity to form a part of humanity and social responsibility by largely looking on the welfare of those sections of the society that are largely overlooked or ignored. Therefore, the societies can adopt problem solving approaches to enable the society to guide their decision makers to successfully identify the common pitfalls of their social values in identifying the roots of ethical and social problems and complications, and therefore, suggesting best solutions that are tended to be restricted, limited and lack of balance in the society. These decision makers can successfully link the individuals to the organizational community and companies like Emirates Islamic Bank can go a long way to avoid these common shortcomings of business practices. These organizations can arise from the heavy reliance on ethical rules that are based on creating technical proficiency in the society (Mautz and Sharaf, 1996, pp.28). These approaches adopted by various business organizations are based on adaptation of corporate codes of ethics and standards, in which their managers hide behind the codes of ethics by believing that they are ethical if they are not violating the rules and ethical codes. By adopting these ideal roles in the organizations, the confidence of employees enhances and they believe that they are working at a fair place, where everyone is willing to give their best to get the job done, where traditions of loyalty and care are present and people work to a higher level to serve their customers with the best (Parvez and Ahmed, 2004, pp.32).

Conclusion:

Ethics is based on morality and set of moral principles that distinguishes the right from what is conducted as wrong. Different institutions develop codes of ethics that are based on morality and religious moral values or secular ethical grounds on the basis of which these codes of conduct are developed such as utilitarian ethics and the notion of fittingness. In the Islamic context, the Khuluq is closely related to ethics and ethical principles in society. The principles that govern the ethical systems in the Islam are always based on Quran and Sunnah. The moral codes that are embedded in Islamic ethical system are emphasized on building the relationship between man and Allah. The code is never conducted to be time bounded or biased by human whims. But the business and accounting codes of ethics in Islam and Islamic faith should be conducted and behaved based on Islamic values in their business dealings. Muslim accountant need to follow the Islamic principles of ethics and professional codes of ethics that are issued by AAOIFI, which depends on the Business and Accounting principles of Islamic faith and Sharia (IIBI, 2015, pp.41).

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