

Governance of islamic banks essay

[Business](#), [Management](#)



Governance of Islamic Banks1. Introduction Effective organizations' governance forms the major platform for greater harmony of their activities, increased productivity in their areas of specialization, and profitability in their operations. Indeed, as Wikson (2007) points out, most of the successful organizations have strong administrative governance structures that not only dictate their immediate operations, but set the whole picture of the long term orientation in their services or products provision. As the theory of organization indicates, governance acts as the rotating fulcrum where all aspects of its operations are weighed to determine the necessary progress (Wilson, 2003).

a). Background of Islamic banks Islamic banks are the banks that operate in consistence with the demands as well as the principles of Sharia [Islamic law] (Choudhury, 2001). Primarily, Islamic banks were found only in Islamic countries until later in the 20th century when they started proliferation globally due to increased spread of the Muslim community.

It is worth noting that since historical times their services have been strongly oriented towards serving the Muslims as opposed to the whole community (Timur, 2005). With bulk of them being located in the Arabic and the

Islamic nations of the Far East and the Middle East, they have seen a new system of modernization that seeks to review their outlook a notion that have cemented their average growth rate at 10-15% (Sait and Lim 2006).

Muhammad (2008) points out that there are about 300 banking institutions spread in over 51 countries globally. b). Research hypothesis Ho: poor governance structures and laws have been the major cause of slow growth and development of Islamic banks both locally and globally. H1: poor

governance structures have not been the main cause of the slow growth of the Islamic banks both at the local as well as the international level. c).

Problem statement The management of Islamic banks has over the last two decades been strongly riddled as they try to expand to the external world from the historical cocoon of service to Islam in the Islamic world only (Hasan, 2003). This has seen their trial to assimilate the conventional banking considerations and remodeling of their external outlook to capture the unstoppable force of Globalization globally. This has especially been very significant for their external shift as more people, perhaps, for competition considerations link the stereotypic ‘ non-secluded’ connotation of Islamic fundamentalism to them (Laldin, 2008). Particularly, the strong attachment of the banks to Fiqh al-Muamarat (Islamic rules on transactions) has been very influential in their management and therefore a major undoing for their development (Wikson, 2007; Rahman, S. M. H. (2002). d).

Research objectives Following the above consideration of global holistic demands by Islamic banks in their management and operations, this study seeks achieve the following objectives; a) To find out the governance structures used in the management of Islamic banks b) To establish how effective the current governance structures are in managing the holistic operations of the banks. b) To analyze the ability of the bank’s governance systems to integrate with the international community at the helm of Globalization. d) To seek effective recommendations that can assist in restructuring governance and administration of running the Islamic banks in the modern. e).

Research questions To achieve the above objectives, this study will seek to answer the following questions that will strongly aid in keeping the research within the necessary scope; a). What are the governance structures applied by the Islamic banks? b) How effective are the current governance structures in the Islamic banks? c) How do the Islamic banks integrate with their governance structures of the external considerations as they expand to the global market? d) What possible alternatives can these banks employ to enhance faster growth and higher profitability? f).

Justification As indicated earlier, the need for effective governance in the current Globalization era has been shifting upward at a steady rate. As Timur indicates, the global order is shifting the view and need for operation by the modern managers to reflect modernity and capture the necessary trust that dictates their returns (2005).

It is in this respect that this study has great essence as it will establish the governance structures, their operations, and evaluate their efficiency in addressing the modern challenges. Of greater importance is that the study will seek to generate the necessary recommendations that can be assimilated in addressing various gaps and possible loopholes in their governance systems. It will therefore be a major step in positioning the bank for greater competition in the highly dynamic world. The study will also be very relevant in the academic realms in that it will contribute to the literary work by applying the required tools and techniques of academic research.

Besides, it will identify the present discrepancies as major platform for further research. This will niche out the necessary edge for continuous studies as a major icon for promoting governance systems continuous changes and development. Muhammad (2008) argues that many of the most successful banks like CITI Bank and JP Morgan & Chase Inc, have over the years sought to entrench the best governance systems that take the requirements of the consumers as the main operating platform for success. Similarly, as outlined in the objectives, this study seeks to re-position the consumer at the highest possible point in terms of satisfaction by establishing possible loose links for improvement to anchor realization of higher profits in Islamic banks. To the global community, this study will open a new type of social order where Islamic banks governance will be able to offer all the banking services to other people as opposed to the current monotonic orientation.

2). Methodology This section will form the most crucial part of the study as it will directly bring the researcher into contact with the actual situation in the field thereby offering the necessary platform for testing the pre-established hypothesis. a) The scope To maintain the highest possible guiding direction for the paper, the researcher will focus at the Islamic banks in the Middle East. The choice of this area was mainly based on the vast numbers of Islamic banks in the region as well as their accessibility due to location in the major towns. However, the study will take a global dimension in that intrinsic exploration of other Islamic banks will be effectively captured in the literature review. This study will take a cumulative time of one year [12 months] a factor subject to the vast quantity

of data to be collected and analyzed to prepare the necessary presentation.

b) Data and data collection As indicated in the beginning of this proposal, governance rotates around the people and their supportive structures that are reflected in the overall output from an organization (Mullineux and Victor, 2003).

Therefore, the researcher will collect the primary data from as the main platform for evaluating the governance systems and their suitability in Islamic Banks. This will be effected inform of interviews and questionnaires that will be addressed to all levels of management in these banks. Notably, all the interviews and the questionnaires will be structured in a manner that seeks to quantify the response from the respondent as a major platform in determining validity.

The workers to be interviewed will be notified in advance and the questions to be asked highlighted to ensure adequate preparations to promote accuracy. Secondary data will be equally important in the process as it will set the necessary comparative framework and possible insight of the projection for the Islamic banks. By reviewing the relevant literature, it will be possible to link and predict the possible outcomes of assimilating various governance models dependent on different theories and principles of governance and management. c) Sample selection and measurement

This study will employ strategic sampling in determining the bank managers to be interviewed in the different Islamic banks of consideration. Taking into consideration that these banks have large number of workers, strategic sampling will aid in reducing the possible bias in the results. It is worth

noting that bank staffs are usually very busy in their daily chores; therefore the questionnaires will be administered online to reduce the amount of time taken in filling them.

Besides, it will be much easier to interview more managers as identified by the sampling system to further reduce the bias. The study will be designed in a manner that the collected information will be easy to infer the validity of the hypothesis. Therefore linket-5 point scale will be used in categorizing the data as it is highly proportional and therefore make it much easier to asses the respondents with high levels of accuracy (Bryman and Bell, 2007).

d) Data analysis and presentation All the data collected will be analyzed using the SPSS software assisted system which will greatly aid in raising the levels of accuracy from the research by minimizing possible errors (Bryman and Bell, 2007). Besides, it will be able to handle vast amount of data with great control of the process, a notion that reduces the total time to be used while promoting the possibilities of making the most effective decisions. The findings of the research will then be presented in form of charts, graphs and polygons reflecting the actual outcome of the study. It is worth noting that at this point, the researcher will strongly use the theoretical and other backup information from the literature review to enrich and support the subsequent discussions and recommendations derivations. e) Ethics in the study The researcher will follow and respect all the copyright demands of the materials that will be used to complete the study. In addition, the study will observe the highest levels of

privacy during and after the research. It is notable as Khan indicates, that issues of governance are very sensitive, a notion that can result to victimization of different respondents (1999). Therefore, all the interview reports will be given identifications numbers on the basis of time the interview took place as opposed to their names of respondents or their departments.

Besides, the researcher will observe high levels of privacy by seeking appointment with different interviewees in the banks. To add to that, the researcher will also fix his schedule dependent on the banks operation mode, a consideration that will aid in getting the most correct information from the different respondents. f) Limitations As indicated earlier, this study will take a span of one year during which all the major operations will be completed. However, it is the view of the researcher that this time will limit the number of the respondents that can be interviewed as well as effective results analysis to derive the most effective recommendations. This will be addressed by simultaneous operations of different activities like review of literature and data collections. To add to that, it is true that the Muslims, most of who work in the Islamic banks, are very secretive especially with reference to opinions on their faith. This will be addressed by guaranteeing the highest possible confidentiality of the responses they will contribute. Finally, the researcher expects some non response and late responses by different samples in the banks.

This will be addressed by constantly reminding the respondents and raising the target sample size for the study a notion that will eliminate bias while

sticking to the main objectives. 3. Reference list

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