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Governance and Management Structure of Islamic Financial Institutions: Comparison between Malaysian and Foreign Islamic Financial InstitutionsSUHADI BIN MOHD IRWANSTUDENT ID: 20124431438Defense Research ProposalSubmitted toFaculty of Accounting19 April 2013

## CHAPTER 1

## 1. 0 INTRODUCTION

## 1. 1 Background of Study

A series of global financial crisis and economic recession for the past three decades have encouraged bankers, economists and researchers worldwide to consider for an alternative financial solution. " Amidst the global gloom, developing Muslim countries continue to bear a heavy burden. Many are at the receiving end of policy decisions, with little or no power to influence the global economic agenda" Najib Tun Razak made this declaration during the World Islamic Economic Forum (WIFE) in December 2012. The conventional banking which is adopted from the western secular system is no longer secure after the recent 2008 US subprime crisis and this has attracted global attention to focus on this new banking model as an alternative. El- Qorhi (2005) believes that building confidence in this new financial industry will encourage the development of Islamic finance. Based on 2013 the statistics from Bank Negara Malaysia (BNM), the Islamic finance has grown tremendously since it first emerged in the 1970's. The current global Islamic banking assets have reached USD1 trillion. A range of Shariah-based financial products, services and business solutions has significantly expanded. Starting from the traditional financing, savings and investment products targeted primarily for individual customers, the offerings have grown to cater to the fast-changing financial needs of customers from all categories including those related to micro financing, wealth management, capital market, treasury and structured products. In relation to this, Chapra and Ahmed (2002) view that the primary objective of the new architecture of Islamic Banking which has attracted attention in many international forums is the need to improve the corporate governance reinforced by prudent regulations and supervision. The improvement in the corporate governance (CG) for Islamic banking will also certainly help enhance the soundness and stability of the respective countries Islamic financial systems. With the increased globalization of financial and Islamic products, it has raised the interest of both market participants and regulators in terms of disclosure quality in the financial reporting worldwide. As a result, Islamic Financial Institutions (IFIs) are required to increase the corporate governance and disclosure quality in their annual reports because this may reduce the information irregularities between the management of the Islamic banks and the shareholders. According to Kothari (2000), reduced information asymmetry has desirable effects on the cost of capital and the volatility of security prices. Islamic banks should translate into the best practices in their operations and good intention initiatives for their shareholders and stakeholders in order to increase the trust in the form of capital which will able to expand the financial industry further. As a result, higher profit return made customers increase their savings. From the profit gained, the customers will be able to spend their money on goods and services and in the process stimulate the economic growth of a country. In Malaysia, Islamic banks are licensed and regulated by the Central Bank of Malaysia – BNM under a separate legal framework described in the Islamic Banking Act (IBA) of 1983. Under this act, BNM was given complete discretion to supervise and regulate the Islamic banks in Malaysia. El- Qorhi (2005) views that due to the uniqueness of Islamic banks transactions and activities of Islamic banks require BNM to monitor and regulate the Islamic banks in Malaysia. Bank Islam Malaysia Berhad was the first fully fledge Islamic bank in Malaysia which has been operating since July 1983 before the government allowed conventional banks to offer Islamic banking services using their existing infrastructure and branches in 1993 (BNM, 1994, 1999). Today, there are 16 licensed Islamic banks in Malaysia which comprise six 6 foreign owned and 10 locally owned. However, according to RAM Rating (2010), for full year end (FYE) of 30 June 2005 (" FY June 2005") and full year (FY) June 2006, Bank Islam had recorded an aggregate RM1. 7 billion losses that wiped out its shareholders’ funds and capital base. The huge losses in 2005/2006 had put Bank Islam under a tremendous pressure to engineer a turnaround and bring the balance sheet back to black. The Bank needed to become competitive, and had to rethink new and effective strategies to attract more investments from potential and existing investors. Only success in implementing good corporate governance will ensure the Bank’s survival locally and globally in the midst of the increasingly challenging marketplace. Therefore, effective corporate governance is immensely important to all Islamic banks in Malaysia in order to improve their shareholders’ wealth and cash flows. It can lead to improvement in controls, reduction of provision of bad debts and ultimately provides cost saving to the business and indirectly attracts more investors to invest in Malaysian Islamic financial industry. In addition, all Islamic banks in Malaysia must ensure that they are in compliance with the laws and regulations by ensuring that the information disclosed in the financial statements is made according to the BNM guidelines and other relevant regulations. This study intends to introduce new variables that will be established based on the new governing guidelines available to all Islamic banks in Malaysia (2011 and 2012).

## 1. 2 Problem Statement

Bank Islam great losses during 2005/6 had indeed attracted many criticisms then. Fast forward to present time, this once unthinkable situation has become somewhat common place under the present economic scenario. Naturally, these losses would draw sharper attention of the relevant authority because more and more financial institutions are suffering from this acute economic hazard. Issues of corporate governance especially on the principal/agent conflict of interest with a view to promote the interests of all the stakeholders as well as the soundness and stability of the Islamic Financial System are still to be found lacking. Apart of these, the Prophetic hadith had also made reference to conflict between two parties in trading where Abu Hurairah reported from the Messenger of Allah who said: " The two (seller and buyer) must not part away except by mutual consent" (Abu Daud). According to Jensen and Murphy (2004), there is no complete solution to resolve the agency problems. However, the proposed solutions may be able to mitigate them. This problem has been an inherent weakness in most conventional and Islamic banking since the advent of the financial system in Malaysia. Crown Prince of Perak, Raja Dr Nazrin Shah in his keynote speech at the Royale Chulan Hotel during the Asian Finance Forum held on 22 Nov 2012, highlighted that unethical corporate governance practice would cause an imbalance to the financial ecosystem. Thus, this may erode the credibility of the Malaysian financial institutions during the past financial crisis.

## 1. 3 Objectives of the Research

The main aim of this study is to examine the contributing factors by both board of directors and management of Malaysian and foreign Islamic financial institutions thus, the objectives of this study are: i)To examine the board of directors and management primary duties and responsibilities of local and foreign Islamic banks in Malaysia reported in their financial annual report for the year 2012 and 2013 in accordance with the BNM and Security Commission (SC) revised Malaysia Code on Corporate Governance (MCCG) 2012. ii)To examine the board performance and management reported in their financial annual report for the year 2012 and 2013 of local and foreign Islamic banks in Malaysia. ii)To examine the organizational structure and functions reported in their annual report for the year 2012 and 2013 of local and foreign Islamic banks in Malaysia. Hamid (2011) points out that the role of the board and its structure could influence the performance of an organization. With implementing of strong corporate governance, in any organization may be able to increase the organization overall performance. Aziz (2009) observes that weak governance have an adverse impact on the book value and earnings of an organization to be lower compared to another with strong governance. Hence, all these actions and activities need to be translated into high quality information disclosed in the financial statements for all parties to review and understand from time to time the business decisions made whether it would increase the shareholder’s value benefit of shareholders. This study seeks to understand the disclosure information pertaining to corporate governance and management decision making reported in the financial reports for all local and foreign Islamic banks in Malaysia for the year of 2012 and 2013.

## 1. 4 Main Research Questions

The corporate governance guidelines issued by the respective responsible bodies as mentioned above may improve the governing practices of IFIs. Hence, Islamic banks will gain tangible and intangible benefits when improvement is made in terms of transparency and accuracy of information disclosed in the financial reports. Ramli and Esa (2012) explain that improvement in the information asymmetry by providing better disclosure quality to shareholder where companies are more accountable to their actions will be able to mitigate the agency problem. This study attempts to examine the local and foreign Islamic banks in Malaysia in terms of compliance with BNM 2011 guidelines and framework together with MCCG 2012 revised guidelines. Specifically, the following research questions will be developed for study: 1. Was there adequate information related to board of directors and management primary duties and responsibility made available in their financial annual reports disclosures in year 2012 and 2013 in accordance to BNM 2011 guidelines and framework together with SE 2012 new guidelines where to safeguard the interest of all shareholders and stakeholders? 2. Was there a " yard stick" implemented by local and foreign Islamic banks in Malaysia to measure their board of directors and the management performance reported in their financial annual report for the year 2012 and 2013? 3. Was there adequate information with regards to the organizational and management structure made available in their financial annual report for the year 2012 and 2013 by local and foreign Islamic banks in Malaysia?

## 1. 5 Scope and Limitation of Study

The variable measurement based on date collected in this research are limited to only the Islamic banks licensed under the Malaysia Islamic Banking Act 1983 comprising nine local owned Islamic banks and six foreign owned Islamic banks. The intention of CG index is to measure the quality of CG information disclosed in the annual financial report for the year 2012 and subject to judgment of the researchers administering the index. In addition, another potential obstacle would be on the data gathered during interview, where all bankers and directors are required to abide by the rules and regulations spelled out in the Banking and Financial Institution Act (BAFIA) 1989 which prevents the interviewees from revealing certain details to a third party even for research purposes. However, in order to be as confidential as possible and to avoid any doubts or dispute as to the authenticity of the data, the respective parties within the University can verify the details and the analysis provided.

## 1. 6 Significance of the Research

The Prophetic hadith had also made reference to provide information before being asked where Zaid bin Khalid reported that Prophet Muhammad said: " Shall I not tell you who is the best of witnesses? " The one who brings his testimony before being asked to do so, or tells his testimony when he is asked for it" (Narrated by Malik). This research is significant because the last known work on the disclosure quality index research was using 2005 BNM local guidelines and foreign guidelines such as AAIOFI and IFSB which the Islamic banks in Malaysia was not mandatory to adopt the foreign guidelines. This work takes into accounts changes in the guidelines, population and current socio economic portfolio. In order to compile the CG information disclosure in the financial report, this research will provide the latest and updated version of guidelines revised by BNM i. e. GP1-i (2011), Shariah Governance Framework (SGF) 2011 and MCCG-2012. This study examines the seriousness of Malaysian and foreign Islamic banks in complying with these guidelines. In particular, this research will examine the CG information disclosures reported in their financial reports for the year 2012 and 2013 by local and foreign Islamic banks in Malaysia in accordance with the current MCCG-2012 issued by SC which focuses on strengthening the board structure and composition recognizing the role of directors as active and responsible fiduciaries. According to MCCG (2012), they have a duty to act as effective stewards and guardians of the company, not just in setting strategic direction and overseeing the conduct of business, but also in ensuring that the company conducts itself in compliance with laws and ethical values, and maintains an effective governance structure to ensure the appropriate management of risks and level of internal controls. Furthermore, this study is intended as a contribution to the relevant literature reference on the topic in future.

## CHAPTER

## 2. 0 LITERATURE REVIEW

## 2. 1 Historical Background

Globally, there have been many studies performed on the practices of Islamic Financial Institutions corporate governance. Among the studies are researches done by Hassan and Bashir (2002), Hassan and Christopher (2005), Shanmugam and Perumal (2006), Hassan (2009), and Matoussi and Grassa (2012). Different models of corporate governance, country background, cultures , economic and political system where the studies were conducted may influence the consistency of the findings. In relation to the compliance that can influence the quality of CG disclosure in the financial annual reports, a survey made by Sulaiman, Majid and Ariffin (2010) using the Guidelines; BNM/ GP1-i (2007), IFSB-3 (2006) and GSIFI (2008), found that the locally owned Islamic banks in Malaysia scored slightly higher average percentage of 53. 09% compared to foreign owned ones which scored an average of 51. 42%. This however indicates, that both local and foreign owned Islamic banks are still lacking in complying with the requirements of these framework which are legally binding to all Islamic banks in Malaysia. BNM has implemented GP8-i (2005), revised GP1-i (2011), and the Shariah Governance Framework (2011) as a mechanism to promote high CG practice for all Islamic banks in Malaysia. This study organized the review of literature according to the findings of the research.

## 2. 2 Corporate Governance in Islamic Banks and Conventional Banks

Firstly, Hassan and Christopher (2005) studied the influence of religion, especially Islam on corporate governance statement in the financial reports of three major Malaysian banks, both conventional and Islamic. They found that the Islamic bank (Bank Islam Malaysia Berhad) scored poorly relative to the conventional banks (Maybank and Public Bank) in the CG ranking of 100 largest companies in Bursa Malaysia. This selected characteristic was based on the market capitalization on 29 Augoust 2003 to 29 August 2003. There were no vision and mission statement disclosed in financial annual report 2003 for Bank Islam Malaysia Berhad compared to Maybank Berhad and Public Bank Berhad financial annual report of the same year. This may undermine the public confidence in terms of transparency and integrity of Islamic banks in Malaysia. According to Osman, Ali, Zainuddin, Rashid and Jusoff (2009), consumers have higher satisfaction level for conventional banks compared to Islamic banks in Malaysia because the conventional banks have been established earlier than Islamic banks. Conventional banks are able to provide better service quality to their customers. Hassan and Christopher (2005) also found that there is no examination exists on the effect of Islam on CG disclosure of Malaysian companies. Furthermore, there are limited evidence to indicate a negative correlation between the proportions of Malay/Muslim board members and the bank’s performance in terms of profitability, efficiency and amount of disclosures. As mentioned earlier, these determinants may influence and provide an indication of the losses made by Bank Islam Malaysia Berhad during 2005 and 2006. Secondly, this study discovered that previous studies have found similar results such as those conducted by Shanmugam and Perumal (2006) and Hassan (2009) whom had analyzed the Islamic banks CG model in Malaysia, Bahrain, Bangladesh and Saudi Arabia. On the other hand, Hassan (2009) analyzed Islamic Banks CG model from Western and European perspective. In both of the studies, they have found that the directors and the management owe fiduciary duties to their shareholders and stakeholders when they failed to comply. At any stage situation in decision making and when carrying daily operations, the directors and the management (agent) must not cause a situation where their own interest conflict becoming the priority instead of the company’s interest. For example, the BNM guidelines GP 8-i (2005) requires the Islamic banks Shariah Committee to disclose and testify under the " Shariah Report" that the banks’ entire operations are in accordance with the Shariah practice. However, there are Islamic banks that do not disclose " non halal" transactions. Therefore, all Islamic banks in Malaysia may want to disclose the " non halal" income in respective financial annual report as this practice will encourage transparency between both parties principal and the agent to avoid any breach of the agent’s fiduciary duty. Hence, it is not a lack of Islamic contracts between two parties (the Islamic bank and customer) but rather the context in which it is used and applied. Finally, we also discovered that some of the previous studies have found mixed results such as those conducted by Hassan and Basir (2002) and Matoussi and Grassa (2012). Hassan and Basir (2002) studied the performance indicators of Islamic banks worldwide from year 1994-2001 using internal and external banking characteristics of Islamic banks to test the profitability and efficiency. Using the regression analysis, they have found that implicit and explicit taxes affect the bank performance negatively. In addition, favorable macroeconomic conditions would also have an impact on the performance negatively. As a result, the study concludes the strong positive correlation between profitability and overhead. Matoussi and Grassa (2012) also found mixed findings from their studies and examinations of the corporate governance variables in 90 largest Islamic banks in Gulf Cooperation Council (GCC) and Southeast Asia member countries from year 2000-2009 to test the corporate governance characteristics of Islamic banks in those regions. Also using the regression analysis resulted on the determinants of financial performance of Islamic banks. They found that the director fees have a positive and significant impact on the performance of all Islamic banks, both in GCC and Southeast Asia countries. In addition, they also found that the CEO duality impacts positively and significantly on the financial performance of the Islamic banks. CEO age has a positive and a significant impact on the financial performance of the Islamic banks particularly in the GCC countries because the older CEOs may have more experience and better management skills than their younger colleagues. Moreover, they found that the presence of a supervisor having accounting/finance competence on the Shariah Supervisory Board (SSB) affect positively and significantly on the financial performance of the Islamic banks. With the above results, strong corporate governance is very important to Islamic banks in Malaysia because of the large gap in the previous study on the quality of CG disclosure in 2009 financial annual report.. With more monitoring and measurement in place such as the corporate governance disclosure index for Islamic banks in Malaysia, the agency problem as highlighted in the Chapter 1 under the " problem statement" i. e. the conflict between the principal (shareholders and stakeholders) and the agent (management of the Islamic banks) could be mitigated because the investors, depositors and regulators have a direct interest in the Islamic banks performance in Malaysia. As a result, the health of the overall economy is in the hands of the bank’s performance.

## CHAPTER 3

## 3. 0 Research Framework

## 3. 1 Proposed Research Framework

The proposed research framework of this study will merely concentrate on the quality of the CG information disclosed in the financial annual reports 2012 and 2013 for local and foreign owned Islamic banks in Malaysia. The study will focus on the examining the extension of CG information disclose by IFIs and the difference of CG disclosure quality between local and foreign owned Islamic banks in terms of their preference disclosure of corporate governance information in their financial annual report meeting the CG information display information requirement set by BNM and SC. More specifically, the primary objective of this study is thus to examine the quality of CG disclosure provided by respective local and foreign owned Islamic banks in Malaysia. After completing literature review and defining problems, the proposed reserach framework can be develop. The stewardship theory will be chosen to use in this proposed framework because as reference to the BNM GP1-i guideline, the BOD ultimate responsibility is to provide stewardship role in their daily dealings of Islamic banks. How the following variables affect the CGDi Quality i. e. dependent variables. Islamic Bank OwnershipLocal andForeign OwnershipCG VariablesBOD and Management Primary Duties and ResponsibilitiesBOD and Management PerformanceOrganization Structure and Functions

## Islamic Banks Ownership

i)Localii) ForeignCGDi Quality

## CG Variabels

i) Duties and responsibilitiesii) BOD and Management PerFormanceiii) Organization Structure and FunctionsIndependent VariablesDependent Variable

## Figure 1: Proposed Research Framework

## 3. 2 Hypothesis Development

The first objective is to examine the board of directors and management primary duties and responsibilities of local and foreign Islamic banks in Malaysia. Thus, the following hypothesis will be developed. H1There is a significant and direct effect different ownership on CGDi QualityThe second objective of this proposed study is to examine the board performance and management of local and foreign Islamic banks in Malaysia. Hence, the the following hypotheses will be developed. H2There is a significant and direct effect different CG Variables – Duties and Responsibilities on CGDi QualityH3There is a significant and direct effect different CG Variables - Performance on CGDi QualityH4There is a significant and direct effect different CG Variables – Organization Structure and Functions on CGDi Quality

## CHAPTER 4

## 4. 0 Research Methodology

## 4. 1 Introduction

The aim of this study is to develop a comprehensive corporate governance disclosure index (CGDi) based on the guidelines and codes issued by BNM and SC among local and foreign Islamic banks in Malaysia. The methodology used in this study covers both qualitative and quantitative research using the primary and secondary data. The qualitative data of this study will come from the interview with the management and board of directors (BOD) of the respective Islamic bank in order to have an in-depth functions and reasoning. This proposed study adapts the methodology from Pahuja and Bhatia (2010) index model. According to Walter and Kenneth (1986), the association between the compounded index which captures both the importance of information and extends of disclosure, and possible determinants of disclosure is compared with using simple disclosure index. The overall evaluation assessment will provide both qualitative and quantitative data according to the CG quality information disclosed in the financial annual reports by the Islamic banks in Malaysia especially on the primary duties and responsibilities including performance of the BOD and management. Under the qualitative category, a descriptive study and hypothesis testing research will be given for each of the categories. The quantitative data obtained from the financial annual reports for 2012 and 2013 will provide a feel of CG information quality disclosure by local and foreign Islamic banks in Malaysia. In addition, this research may provide a general level of indicator in terms of the CG quality information practices of local and foreign Islamic banks in Malaysia. The qualitative data from the interviews enabled the researcher to investigate the correlation of these variables that will be linked to the CGDi ratio and to provide a complete picture on the CGDi achieved from the quantitative data for the purposes of producing findings and answers.

## 4. 2 Research Design

After identifying the variables in the problem statement and proposed research framework in the earlier chapters, this section will cover the research design from the qualitative and quantitative research data gathered and analysis plan in order to arrive to a proposed solution.

## 4. 2. 1 Purpose of the Study: Descriptive and Hypothesis testing

This study intends to adopt both descriptive and hypothesis researches which have been designed to investigate all the research questions stated earlier in Chapter 1. The three research questions found in this research will be examined through a comprehensive corporate governance disclosure index based on the information contained in the financial annual reports which is consistent with prior studies, where this index will acts as a proxy for disclosure quality. As for the qualitative data, each respondent will be interviewed in his/her office. The private interview is generally expected to last between 10 to 20 minutes, although the length of the interview may vary depending on the availability of the respondent. Please refer Appendix for the interview questions. In addition, this study also attempts to ascertain the relationship between independent variables (predictor variables) and the dependent variables (criterion variables). Types of ownership and the corporate governance variables (characteristics) are the two independent variables found in this study. The researcher finds that using exploratory study may not be suitable because the information pertaining to the problem or research issues is available. However, researchers are unable to fully resolve the problem and can only mitigate the problem from worsening in future.

## 4. 2. 2 Types of investigation: Causal versus Correlation

Based on the research problem statement and research objectives as highlighted in Chapter 1, a correlation study is better to find an answer to the issue compared to causal study. In the research objective, the purpose of the study is to investigate the factors that can influence the results of CDGi quality as the dependent variable. In order to be consistent to the earlier decision made under the point 3. 2. 1, correlation study may be the most applicable method for this type of investigation. According to Sekaran and Bougie (2009), the causal study is applied in order to establish a definite cause and effect-relationship.

## 4. 2. 3 Extent of Researcher’s Interference on the Study

Carrying research study for financial industry requires high level of independence, accuracy and integrity. The financial industry will collapse and this will affect the economy if the above said values are lacking.. Sekaran and Bougie (2009) points out that, the match for correlation study would pose minimal interference at the researcher level with the normal flow of work. Hence, in order to increase the confidence among all stakeholders such as regulators, Islamic banks and others parties, the elements of manipulation in certain variables should be avoided. The function of a causal study is to establish the cause-effect relationship where the researcher may try to manipulate certain variables based on his interest.

## 4. 2. 4 Study Setting: Contrived and Non-Contrived

Based on Sekaran and Bougie (2009), there are three modes of study setting i. e. field study, field experiment and lab experiment which are divided into two categories i. e. contrived and non-contrived study setting. The non-contrived relates to correlation study while on the other hand, the field experiment and lab experiment will relate to contrived study setting. In this study, the researcher wants to analyze the relationship between the two independent variables types of ownership in Islamic financial institution and the CG variables with the CGDi (CG quality). The researcher may try to correlate the variables by looking at both variables i. e. independent and dependent. Hence, this study proposes to adopt the non-contrived setting because there is no or minimal interference expected at the normal work routine and this is linked with the correlation study objective as mentioned in point 3. 2. 2. The disadvantage of field experiment is that independent variable can be manipulated to establish a cause –and –effect relationship between the two variables.

## 4. 2. 5 Unit of Analysis: Individual, Dyads, Groups, Organizations, and Cultures

In this study, the researcher wants to know whether there are any significant and direct effect on the independent variables according to the types of ownership and the types of CG variables in Islamic banks in Malaysia towards CGDi (CG quality). These are the statements used for the hypothesis statement in the earlier chapter. As stated earlier, the data will be collected from the financial annual report for 2012 and 2013 to study the behavior in terms of group size, group structure and other relevant aspects. The main interest of this study is for banks to have group rather than individual decision making because according to Sekran and Bougie (2009) individual does not have the same characteristics as groups. The unit of analysis is individual Islamic banks in Malaysia.

## 4. 2. 6 Time Horizon: Cross-sectional versus Longitudinal studies

For this research the researcher is planning to assess the quality of CG information for two years after the implementation of the new SC guidelines, MCCG 2012, to check whether the Islamic banks are complying with this guideline. Based on the background of the studies, cross sectional study may be the right approach to access the CG quality in terms of compliance. . Longitudinal studies are not required because the study does not require cause-and-effect-relationship as mentioned earlier.

## 4. 3 Population and Sample

The proposed population of this study covers the Islamic banks in Malaysia. A list of licensed Islamic banks in the country will be obtained from BNM website. There are a total of 16 Islamic banks in Malaysia under the BNM purview. According to BNM (2009), these Islamic banks are divided into two ownership structures i. e., six foreign and nine local ownership Islamic banks. Due to the uniqueness of the Islamic banking transactions and banking background in Malaysia, this study will not cover other Islamic banks which are not under the BNM purview. The sample will only cover a two year period of 2012 and 2013. The following are the sampling process adopted from Parmjit, Chan and Sidhu (2006): 1. Who do you want to generalize --------- The population is 16 Islamic banks in Malaysia. 2. What population can you get access to --------- The sample size for this study covers six foreign and nine local ownership Islamic banks. 3. How can you get access to them ---------- Sampling frame proposed is the Stratified Sampling. 4. Who is in your study? --------- Sample: Islamic banks in Malaysia. From the above process the researcher will use the Stratified sampling because this procedure enables the researcher to achieve a higher degree of representativeness and reduce the sampling error. The researcher will have adequate number of subjects as outlined earlier in the research framework.

## 4. 4 Instrumentation – Questionnaires

This study intends to work jointly with Association of Islamic Banks in Malaysia (AIBIM) to seek participation from foreign and local Islamic banks to participate in the interview which eventually will benefit all the Islamic banks. After seeking approval, the researcher will request the list of all board of directors (BOD) and management together with the official address of the foreign and local Islamic banks. After that the researcher will discuss and seek best practice and solutions from AIBIM on how the survey questionnaires prepared by the researcher can be distributed to all participants. After one month, the researcher will follow-up with telephone calls to the respective Islamic banks to make sure that the questionnaires have been given to participants for them to fill in before returning them back to the person in charge.. If any of the BOD wanted to meet to understand in greater detail about the study, the researcher will make an effort to meet them accordingly. Each question will be attached with a letter to explain in detail the purpose of the study and what is expected from the participants. In relation to this, the participants will be advised about the importance of completing the questionnaires and the confidentiality of the feedback given. The information and data obtained from the participants will be purely utilized for this research purpose only.

## 4. 5 Data Collection – Corporate Governance Disclosure Islamic Bank Index (CGDi)

This study intends to develop a comprehensive CGDi using the guidelines issued by BNM (GP1-i, GP8-i and SGF) and MCCG 2012. This will be the first CGDi developed using the revised MCCG 2012 together with the BNM guidelines and framework which the guidelines issued by BNM has been aligned to the MCCG. The CGDi proposed to be used is consistent with Pahuja and Bhatia (2010) index model computed using the following formula : X 100CGDi = Total Score of Individual Islamic BankMaximum Possible Score Obtained by the respective Islamic BankTable 1 : CGDi adopted from Pahuja and Bhatia (2010)The CGDi assessment will be divided into two main categories i. e. foreign and locally owned Islamic banks in Malaysia. The scoring formula exhibited in Table 1 will be based on XXX items grouped according to the 14 principles principal given by SC in the MCCG 2012. The maximum score that both ownership categories of Islamic banks will be XXX item. Full compliance of 100% with CGDi will be awarded to any Islamic banks that fully disclose the required information in their financial annual report for 2012 and 2013.