Sharia Governance Practices at Islamic Banks in Bahrain
From Islamic Bankers’ Perspective

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Abstract. This study aims to evaluate the Islamic banks’ commitment towards Sharia Governance in Bahrain. This study utilizes both quantitative and qualitative research methods. The survey results reveal that Islamic banks in Bahrain practice 7 out of 9 questions in the questionnaire, which are related to Sharia governance aspects as per the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)’s governance standards. The interview results also reveal that the Islamic banks are practicing most aspects of Sharia governance. The results of this paper can be an input for the regulator and the banks’ management to make decisions to improve Sharia governance practice among Islamic banks in Bahrain.

Keywords: Sharia governance, Islamic banks, AAOIFI governance standards

Abstrak. Penelitian ini bertujuan untuk mengevaluasi komitmen bank syariah terhadap Tata Kelola Syariah di Bahrain. Penelitian ini menggunakan metode penelitian kuantitatif dan kualitatif. Hasil survei tersebut mengungkapkan bahwa bank-bank Islam di Bahrain mempraktikkan 7 dari 9 pertanyaan dalam kuesioner yang terkait dengan aspek tata kelola Syariah sesuai dengan standar tata kelola Akuntansi dan Auditor untuk Lembaga Keuangan Islam (AAOIFI). Hasil wawancara juga mengungkapkan bahwa bank syariah mempraktikkan sebagian besar aspek tata kelola syariah. Hasil makalah ini bisa menjadi masukan bagi regulator dan manajemen bank untuk membuat keputusan untuk memperbaiki praktik tata kelola syariah di kalangan bank syariah di Bahrain.

Kata kunci: tata kelola syariah, bank syariah, standar tata kelola AAOIFI

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Introduction

In the wake of the recent financial crisis, much more attention had drawn to banks’ corporate governance. The Basel Committee on Banking Supervision (BCBS) (2006) points out that effective corporate governance practices are essential to achieve and maintain public trust and confidence in the banking system. Public trust and confidence are very critical to the proper functioning of the banking sector and the economy as a whole. To date, most studies focus on the developed countries, while relatively little is known about the corporate governance structure and its role in the banking sector of emerging economies (Liang et al., 2013). The same case applies to the Islamic financial institutions (IFIs). El-Gamal (2003) suggests that the activities of Islamic financial institutions affect the welfare of many people and for this reason, the governance of such institutions has been under extensive scrutiny and study.

Corporate governance is essential in Islamic banks so that their investors can have access to factual and reliable information to make well-informed decisions. However, standard corporate governance mechanisms may not be suited to the Islamic banking industry since Islamic banks work with equity participation, risk and profit and loss sharing arrangement that are different from the conventional banks operating environment. The Islamic corporate governance based on stakeholders-oriented model (CIMA, 2011). This governance preoccupied with two fundamental concepts of Sharia principles of property rights and contractual frameworks. Sharia rules the governance of any corporation in Islam where all the stakeholders including the shareholders, the management, and other stakeholders such as the employees, the depositors, and the community were involved.

One of the unique governance processes of an IFI is Sharia governance. Sharia governance is a mechanism at the institutional, industrial and national levels that ensures an IFI only takes and uses Sharia-compliant activities, products and services. Sharia governance is equally important to the corporate governance since Sharia governance plays a critical role in ensuring the IFI’s compliance with Sharia (Haqqi, 2014). The Sharia Supervisory Board (SSB) plays a vital role in Sharia governance by advising and supervising the operation of the bank to ensure that it complies with Sharia Principles. Getting a better understanding of the Sharia governance practice, it is crucial to present case studies of Sharia governance practices in several countries. One of the countries that must include in these regards is the Kingdom of Bahrain. The country has been listed for three consecutive years by Thomson Reuters as one of the top hubs for Islamic financial industry (Hidayat, 2016). In Bahrain, 113 banks are operating which consists of 76 wholesale banks, 28 retail banks, including 13 locally incorporated banks and
15 branches of foreign banks. There are also eight representative bank offices in the kingdom. Included in the above is the number of Islamic banks, which is now 25 institutions consisting of 6 retail banks and 19 investment banks. The total assets of these 25 Islamic banks have been growing steadily to reach USD 25.7 billion by the end of 2016. This data represents around 13.3 percent of the total banking market share, which stood at USD 192.7 by the end of 2016.

In Bahrain, all Islamic financial institutions are required by the Central Bank of Bahrain (CBB) to adopt the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards that include the governance standards. As a consequence, all IFIs including Islamic banks must conduct a periodic Sharia review and audit. Given the importance of Sharia governance and Bahrain’s position as one of the Islamic financial centers, this study aims to evaluate the level of Islamic banks’ commitment towards Sharia Governance in the Kingdom of Bahrain as per the AAOIFI standards. In other words, this study intends to answer the research question of “what is the level of Islamic Banks’s commitment in Bahrain towards Sharia Governance?”.

This study is significant because it gives an input to Islamic banks’ stakeholders to make strategic decisions with regards to their relationship with the banks. The existence of an effective Sharia governance practice in Bahrain is essential to assure the stakeholders of Islamic banks in the kingdom that their banks are compliant with Sharia in all their activities, transactions, products and services. Therefore, this study is expected to give input for the CBB to set up rules and regulation that can enhance Sharia governance practice in the kingdom. This review is also beneficial for the management of Islamic banks in Bahrain to identify areas of Sharia governance that need an improvement. The standard setter like the AAOIFI as an input to enhance its governance standards might use this study. This study also adds value to the literature since to the best knowledge of the researchers; no prior study presents Sharia governance practices in Bahrain.

Literature Review

Concept of Sharia Governance

Until the Islamic Financial Services Board (IFSB) issued its guiding principles on Sharia governance system in the Institutions Offering Islamic Financial Services (IFSB-10) in 2009, there is no formal definition of Sharia governance (Kassim et al., 2013; Haqqi, 2014). The IFSB defines Sharia governance as a set of institutional and organizational arrangement through which an IFI makes sure that there is an effective independent oversight of Shari’ah compliance over its activities (Kassim et al., 2013). On the other hand, AAOIFI doesn’t define the Sharia governance in
its standards. However, it has seven governance standards where most of them are very much related to Sharia governance (Kassim et al., 2013). The seven governance standards of the AAOIFI are (AAOIFI, 2010): First, Sharia Supervisory Board: Appointment, Composition, and Report. Second, Sharia Review. Third, internal Sharia Review. Fourth, audit and governance committee for Islamic financial institutions. Fifth, independence of Sharia supervisory boards. Sixth, the statement on governance principles for Islamic financial institutions. Seventh, corporate social responsibility conduct and disclosure for Islamic financial institutions.

The discussion on how most aspects of the above standards related to Sharia governance presented in the following paragraphs. Governance standard no. 1 of the AAOIFI defines a Sharia Supervisory Board (SSB), its appointment, composition, terms of engagement, and its dismissal (Haqqi, 2014). The AAOIFI defines the SSB as an independent body composing of scholars in Islamic commercial jurisprudence (AAOIFI, 2010). The body is very crucial in the Sharia governance system since it directs, reviews, and supervises the activities of IFIs to ensure the IFIs are Sharia compliant. Given its importance, all IFIs must have formal and informal arrangements on how the SSB is directed, managed, and controlled. For the appointment of SSB members, it is essential for the Islamic banks to ensure that the members are independent in the sense that they do not have significant shares in the banks and they are not the directors of the banks (Haqqi, 2014). The shareholders of the bank appoint the SSB members during the annual general meeting upon recommendation made by the board of directors.

The AAOIFI suggests that the SSB should have a minimum of three members who specialized in Islamic commercial jurisprudence (Fiqh Muammalah). The AAOIFI governance standards also mention that the SSB may include an expert in the field of Islamic financial institutions with the knowledge of Fiqh Muammalah as a member of the SSB to help other members of the SSB by providing them with direction, guidance, and supervision of IFIs’ activities (AAOIFI, 2010).

Governance standard no. 2 of the AAOIFI discusses the mechanism of Sharia review. Sharia review can define as a test on the degree of compliance of an IFI with Sharia in its activities that include the contracts, policies, agreements, memorandum, and articles of associations, products, transactions, and other necessary documents. The SSB is responsible for conducting the Sharia review and expressing its opinion regarding the degree of compliance of the IFI with Sharia. However, it is important to note that the responsibility of Sharia compliance is still in the hand of the IFI’s management. In conducting a Sharia review, it is crucial for the SSB to plan the review procedures, implement the systems well, and accomplish the sufficient quality control policies and procedures (Kassim et al., 2013).
Governance standard no. 3 of the AAOIFI presents the internal Sharia review guidelines. The internal Sharia review is a vital organ of Sharia governance that ensures the management of an IFI is taking care its responsibility related to Sharia compliance. Internal audit or control department within an IFI such as an Islamic bank conducts typically it. The head of the department is directly reporting to the board of directors of the IFI (Kassim et al., 2013). The internal Sharia review department should have sufficient staff that is knowledgeable, well educated, and well trained in conducting the review. Like the Sharia review that led by the SSB, internal Sharia review also starts with proper planning and ends with a conclusion. It is important to note that internal Sharia review staff must have access to all necessary documents without any restrictions. For that purpose, each IFI including Islamic banks must have a charter that specifies the purpose, authority, and responsibility of the internal Sharia department. This is very important to ensure the effectiveness of the internal review (AAOIFI, 2010).

Governance standard no. 4 of the AAOIFI elaborates the formation of Audit and Governance Committee (AGC) of for IFIs. This committee has several functions namely preserving the reliability of the financial reporting processes, protecting all stakeholders’ interests, giving extra assurance on the reliability of financial information presented to the board of directors, and becoming a bridge between the management of IFIs and their stakeholders (Kassim et al., 2013). This is also another essential organ of the Sharia governance system.

Governance standard no. 5 of the AAOIFI stresses the importance of SSB members’ independence. The AAOIFI defines independence as an attitude of mind that does not allow the viewpoints and conclusions of its possessor to become reliant on or subordinate to the influences and pressures of conflicting interests (AAOIFI, 2010). The SSB independence is very crucial for an effective Sharia governance practice to take place. Also, public confidence on the IFIs is at stake when there is doubt in the independence of SSB members. The next subsection elaborates some previous studies in the area of Sharia governance.

**Previous Studies on Sharia Governance**

Review of the literature reveals that some earlier studies discuss Sharia governance and standardization at IFIs. This subsection presents some of the latest former studies that examine the topic. For example, Farook and Farooq (2011) identify the challenges in the implementation of Sharia governance for Islamic finance. The conceptual paper argues that lacking a universal framework for Sharia governance is one of the significant difficulties by this study. Another problem pointed out by the study is the multiple conflicts of interests as a result of most
of international respected Sharia scholars are sitting in various SSBs of IFIs. The situation might pose a threat to the independence of the SSB members.

Ahmed and Khatun (2013) evaluate the level of compliance of 17 Islamic banks in Bangladesh with the AAOIFI Sharia governance standards. Using secondary data to derive the inferences. The study concludes that none of the 17 Islamic banks in Bangladesh is fully compliant with AAOIFI governance standards. Comparing full-pledged Islamic banks with Islamic windows. It found that full-pledged Islamic banks are more docile than the Islamic windows to the AAOFI governance standards. It also noted that there is no uniformity in the way the SSB report prepared among the 17 banks. Therefore, the level of compliance of Islamic banks in Bangladesh with AAIFI Sharia governance standards needs to be enhanced for a better transparency and minimizing Sharia compliance risk.

Hamza (2013) compare between decentralized Sharia governance framework as practiced in the Gulf Cooperation Council (GCC) countries and the centralized Sharia Governance framework as practiced in Malaysia. By using qualitative research approach, this study reveals that the centralized Sharia governance framework is more effective than decentralized Sharia governance framework since the former more effective in ensuring the independence of the SSB in their supervision and the consistency of Sharia ruling.

Kasim et al. (2013) compare between Sharia governance guidelines framework of the AAOIFI, IFSB, and BNM. By using document analysis approach, the study finds that all the three Sharia governance guidelines frameworks are not comprehensive enough. For example, only the IFSB Sharia governance guidelines framework defines Sharia governance. In term of the discussion on the importance of Sharia review and audit functions, the AAOIFI Sharia standards provide much more details analysis than the other two guidelines. In term of Sharia risk management and research function, only BNM Sharia governance guidelines framework discusses the topics. Therefore, a common comprehensive Sharia guidelines framework needs to develop which will use as a single reference for Islamic finance stakeholders.

Shafii et al. (2013) examine the impacts of the Sharia audit requirements on Sharia committee function after the implementation of the new Sharia governance framework of Bank Negara Malaysia. In-depth interview conducted and used a single case study method; the study concludes that the Sharia audit function has an added value in ensuring the compliance towards the Sharia principles. Haqqi (2014) provides a qualitative appraisal of the Sharia governance at Islamic financial institutions. Reviewing the IFSB-10 “Guiding Principles on Sharia Governance Systems in Institutions Offering Islamic Financial Services” and other Sharia governance guidelines and standards, the study concludes that there is a need of
having a harmonized Sharia governance rules to enhance transparency within Islamic financial industry and to boost the public trust in IFIs. The study recommends Sharia governance reforms using a unification-based approach of Islamic legal system and convention to create a harmonized Sharia governance rules.

BNM (2014) publishes a report highlighting the importance of standards harmonization within global Islamic financial industry. The report believes that standards harmonization including Sharia harmonization will boost the development of the industry into the higher stage and improve Sharia governance practices at IFIs. In the story, it highlighted that one of the benefits of Sharia harmonization is boosting the investors’ and consumers’ confidence towards Islamic financial institutions (IFIs). Also, the report also believes that Sharia uniformity can help IFIs in their operational practices, product innovation, and Sharia governance practices. The report also highlights that even though there are efforts by multilateral bodies like the AAOIFI and IFSB on Sharia harmonization, the challenge is how to convince the member countries of those institutions to adopt a common global standard while the current existing standards in each country are different from each other.

Waemustafa and Abdullah (2015) empirically test the association between the effectiveness of Sharia supervisory board (SSB), their remuneration and mode of financings of Islamic banks in Malaysia. A 9 attributes index has been used to score the effectiveness of SSB, which applied, to 18 Islamic banks operating in Malaysia during 2012-2013. The study finds that there is no a significant relationship between the effectiveness of SSB and Islamic banks’ mode of financings. However, there is a significant positive relationship between SSB remuneration, bank’s financial growth and the Islamic banks’ mode of financings. Since the dominant mode of financing is Bai’ Bithaman Ajil and it has been becoming the biggest financing for about 25 years. The study concludes that there is no serious effort made by Islamic banks’ management to shift to profit and loss sharing and there is no imposition made by the SSB in this regard since the SSB members’ remuneration is positively related to the BBA. Therefore, there could be an issue of the independence of SSB members within Islamic banking industry in Malaysia

Hidayat (2017) highlights several benefits and challenges of having a universally accepted Sharia standard. Using library-based method and the semi-structured interview with 3 Sharia scholars, the study reveals that the application of a common Sharia standard like the AAOIFI standard across jurisdictions will undoubtedly improve the Sharia governance practices within Islamic financial industry. However, the stakeholders of Islamic finance to apply the common standard successfully must overcome several challenges. Therefore, the stakeholders of Islamic finance should collaboratively put this proposal into practice and work
together to tackle the obstacles to advance the industry to a higher level.

The above previous studies highlight some challenges in the Sharia governance at IFIs. Also, most studies underline the importance of having a common Sharia governance standards, guidelines, and rules for all IFIs. The previous reviews also highlight the need for Sharia governance reforms and enhancement of the existing Sharia governance standards. It is important to note that none of the earlier studies evaluates the Sharia governance practices at Islamic banks in Bahrain. Therefore, this study fills the gap in the literature of Sharia governance by examining the level of Islamic bank's commitment towards Sharia governance requirements in Bahrain.

Method

This study is a descriptive research by using both quantitative and qualitative research methods to achieve the research objective. The study utilizes a survey questionnaire and semi-structured interview as its research instruments to collect the opinion of Islamic banks' employees and Sharia scholars in Bahrain on the commitment of their banks towards Sharia governance. The questionnaire consists of two parts. The first part is the demographic characteristics of the respondents that consist of gender, age, and education. The second part consists of 9 yes or no questions related to the commitment of Islamic banks in Bahrain towards Sharia governance with a chance to give comments for each question. The nine questions are adopted based on the AAOIFI governance standards and the previous studies (AAOIFI, 2010; Kassim et al., 2013; Haqqi, 2014). There are: First, are the AAOIFI governance standards and the IFSB's guiding principles on Sharia governance system adopted as the guidelines for Sharia governance at your bank? Second, does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board? Third, does your bank have a written policy that sets out the SSB members' appointment, composition, selection, and dismissal? Fourth, are the rulings of SSB at your bank legally binding? Fifth, does SSB play supervisory and advisory roles on Sharia matters in your bank? Sixth, are the members of SSB independent? Seventh, does your bank have written policies on Sharia review procedures, quality assurance, and the report? Eight, do the SSB members at your bank have access to all records, transactions, and information to conduct the Sharia Review? Ninth, does your bank have a charter that specifies the purpose, authority, and responsibility of the internal Sharia review department or unit?

For the interview, besides the above yes or no questions, there are five open-ended questions asked of the Sharia scholars: First, what is the current landscape of Sharia governance in Bahrain? Second, what are the relevant laws related to Sharia governance in Bahrain? Third, who are the essential stakeholders of Sharia governance
in Bahrain? *Fourth,* is there any legal case in Bahrain that has implications for Sharia governance? *Fifth,* what are the challenges faced by Islamic Banks in Bahrain in Sharia governance practice?

Two hundred Islamic banks’ employees in Bahrain participated in the survey. They are selected using a snowball-sampling technique where each respondent is requested to forward the questionnaire to his/her colleagues at work. All the respondents are employees of Islamic banks in Bahrain. Also, two Sharia scholars in Bahrain namely Shaikh Essam Ishaq and Mohammed Burhan Arbouna were interviewed. The research employed the descriptive statistics and analysis to identify the frequency distribution percentage of the responses.

**Result and Discussion**

This section presents the results of the survey. This part consists of 3 subsections namely the demographic profiles of the respondents, the respondents’ answers to the nine questions related to Sharia governance practices of Islamic banks in Bahrain, and the answers of the two Sharia scholars to the nine yes or no questions plus six open-ended questions.

**Table 1. Demographic Profiles of the Respondents**

| Gender     | Frequency | Percent |
|------------|-----------|---------|
| Male       | 120       | 60.0    |
| Female     | 80.0      | 40.0    |
| Total      | 200       | 100.0   |

| Age       | Frequency | Percent |
|-----------|-----------|---------|
| 18-30     | 72        | 36.0    |
| 31-45     | 80        | 40.0    |
| 46-65     | 48        | 24.0    |
| Total     | 200       | 100.0   |

| Education                           | Frequency | Percent |
|-------------------------------------|-----------|---------|
| High School                         | 28        | 14.0    |
| Diploma                             | 40        | 20.0    |
| Bachelor Degree                     | 76        | 38.0    |
| Post-graduate Degrees (Masters or Ph.D.) | 44   | 22.0    |
| Not Specifying                      | 12        | 6.0     |
| Total                               | 200       | 100.0   |
From 200 respondents participated in the survey, 120 of them or 60% are male while the remaining 80 respondents are female. In terms of age, the majority of respondents is 31-45 years old which represents 40% of the total respondents. The respondents whose age is in the 18-30 years old category that describes around 36% of the total respondents follow it. The least number is the respondent in the age group of 46-65, which represents approximately 24% of the total respondents. In terms of education, the majority of the respondents is Bachelor degree holders who represent 38% of the total respondents. 44 respondents (22%) have post-graduate degrees (Masters or Ph.D.). 28 respondents (14%) are high school graduates, and 12 respondents (6%) did not specify their educational background. From the demographic profile of the respondents, it can be concluded that the sample of this survey represents almost all categories of Islamic banking workforce in Bahrain. Additionally, the majority of the respondents is well educated. Thus, it qualifies them to participate in this survey. Table 1 summarizes the demographic profile of the respondents participated in this study.

Respondents’ Answers to the Sharia Governance Questions

This subsection reveals the respondents’ answers to each 9 Sharia governance-related questions. For question no.1, “Are the AAOIFI governance standards and the IFSB’s guiding principles on Sharia governance system adopted as the guidelines for Sharia governance at your bank?”, 148 respondents (78%) answered ‘yes’ to the question. In the comment section, the majority of the respondents is aware of the AAOIFI governance standards but, some of them are not aware of the IFSB’s guiding principles. This is probably because of the mandatory rule imposed by the CBB on all Islamic banks to adopt the AAOIFI standards. However, there are around 52 respondents that answered “no” to the questions that might cause by their lack of knowledge in the governance practice at their respective Islamic banks. Table 2 below summarizes the answers of the respondents to the question.

Table 2. Summary of the Respondents’ Answers to Question No. 1

| Question                                                                 | Yes | No |
|--------------------------------------------------------------------------|-----|----|
| Are the AAOIFI governance standards and the IFSB’s guiding principles on | 148 | 52 |
| Sharia governance system adopted as the guidelines for Sharia governance  | 78.0| 22.0|
| at your bank?                                                            | 22.0| 22.0|

http://journal.uinjkt.ac.id/index.php/iqtishad
DOI: http://dx.doi.org/10.15408/aiq.v10i1.5991
For question no. 2, “Does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board?”, The majority of the respondents surprisingly answered “no” to this question. 128 respondents (64%) is not aware of any publication of the chart. When the researchers checked on some Islamic banks’ websites, it found that the chart is available in the annual report of the banks. Most Islamic banks’ employees might not notice the chart. This is probably the reason why most of the respondents are not aware of the chart. On the other hand, 72 respondents (36%) answered, “yes” to the question. It means they are aware of the chart. Probably, those respondents are holding the managerial position in their banks, and they have seen the chart in one of the banks’ documents. Table 3 summarizes the respondents’ answers to the question.

Table 3. Summary of the Respondents’ Answers to Question No. 2

| Question | Yes | No |
|----------|-----|----|
| Frequency | Percent | Frequency | Percent |
| Does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board? | 72 | 36.0 | 128 | 64.0 |

For question no. 3, “Does your bank have a written policy that sets out the SSB members’ appointment, composition, selection, and dismissal?”, 120 respondents or 60% answered “yes” to the question while the remaining 80 respondents or 40% answered ‘no”. It means Islamic banks in Bahrain do have a written policy that sets out the SSB members’ appointment, composition, selection, and dismissal. This is a requirement as per the AAOIFI governance standard no. 1. Those respondents that are not aware of the policy might be due to the lack of knowledge in the matter. Table 4 presents the summary of the respondents’ answer to this question.

Table 4. Summary of the Respondents’ Answers to Question No. 3

| Question | Yes | No |
|----------|-----|----|
| Frequency | Percent | Frequency | Percent |
| Does your bank have a written policy that sets out the SSB members’ appointment, composition, selection and dismissal? | 120 | 60.0 | 80 | 40.0 |
For question no. 4, “Are the rulings of SSB at your bank legally binding?”, Most respondents answered “no” to this question. 150 respondents believe that the SSB’s rulings are not legally binding. In the comment section, some respondents mentioned that they are of the opinion that the rulings are only “persuasive,” not binding. This is apparently not in line with the AAOIFI governance standard, which mentions that the SSB’s rulings shall be binding on the Islamic banks. Table 5 summarizes the answers of the respondents to the question. This is probably because of the lack of knowledge or low level of awareness of this aspect of Sharia governance. Table 5 presents the summary of the respondents’ answer to this question.

Table 5. Summary of the Respondents’ Answers to Question No. 4

| Question                                                                 | Yes | No            |
|-------------------------------------------------------------------------|-----|---------------|
| Are the rulings of SSB at your bank legally binding?                    | 50  | 150           |
| Frequency                  | 25.0| 75.0          |

For question no. 5, “Does SSB play supervisory and advisory roles on Sharia matters in your bank?”, 132 respondents (66%) answered “yes” to the question. It means the majority of the respondents are aware of the roles of the SSB in their respective banks. However, there are 68 respondents (34%) who answered “no” to the question. In the comment section, those who answered no some of them think that the SSB plays the executive role instead of advisory and supervisory roles. Table 6 presents the summary of the respondents’ answers to the question.

Table 6. Summary of the Respondents’ Answers to Question No. 5

| Question                                                                 | Yes | No            |
|-------------------------------------------------------------------------|-----|---------------|
| Does SSB play supervisory and advisory roles on Sharia matters in your bank? | 132 | 68            |
| Frequency                  | 66.0| 34.0          |

For question no. 6, “Are the members of SSB independent?”, The majority of the respondents or 116 of them answered “yes” to the question. This represents around 58% of the total respondents. This is in line with the AAOIFI governance standard no. 1 which states that the SSB members must be independent of the banks. However, 84 respondents answered “no” to the question. In the comment
section, some respondents mentioned that the members of SSB of their banks are the international respected Sharia scholars who sit on the boards of several Islamic banks around the world. This is probably why some respondents questioned their level of independence. Table 7 gives the summary of the respondents’ answers to the question.

Table 7. Summary of the Respondents’ Answers to Question No. 6

| Question                                      | Yes | No |
|-----------------------------------------------|-----|----|
| Are the members of SSB independent?           | 116 | 84 |
| Frequency                                     | 58.0| 42.0|
| Percent                                       |     |    |

For question no. 7, “Does your bank have written policies on Sharia review procedures, quality assurance, and the report?” Very high percentage of the employees (86%) answered “yes” to the question indicating their agreement to Sharia governance practices at their banks. However, a small minority of the employees (14%) or 28 respondents answered “no” which might be due to their lack of knowledge towards the practices. Table 8 summarizes the respondents’ answers to Question no. 7.

Table 8. Summary of the Respondents’ Answers to Question No. 7

| Question                                      | Yes | No |
|-----------------------------------------------|-----|----|
| Does your bank have written policies on Sharia | 172 | 28 |
| review procedures, quality assurance and the  |     |    |
| report?                                       | Frequency | 86.0 | 14.0 |
| Percent                                       |     |    |

For question no. 8, “Do the SSB members at your bank have access to all records, transactions, and information to conduct the Sharia Review?” 166 respondents or 83% of them answered, “yes” indicating their awareness of the practice of this aspect of Sharia governance at their respective banks. However, 28 respondents or 14% of the respondents answered “no” indicating their lack of awareness of the practice of the aspect of the Sharia governance at their essential banks. There is no further comment from the respondents for this question. Table 9 summarizes the respondents’ answers to Question no. 8.
Table 9. Summary of the Respondents’ Answers to Question No. 8

| Question                                                                 | Yes | No |
|--------------------------------------------------------------------------|-----|----|
| Do the SSB members at your bank have the access to all records, transactions and information to conduct the Sharia Review? | 166 | 34 |

For question no. 9, “Does your bank have a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit?”, Most respondents (160 or 80%) answered “yes” indicating the practice of this aspect of Sharia governance at their respective banks. However, there are 40 respondents or 20% of them that answered “no” to the question probably due to the lack of awareness. In the comment section, some respondents mentioned that their banks have a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit. Table 10 summarizes the respondents’ answers to Question no. 9.

Table 10. Summary of the Respondents’ Answers to Question No. 9

| Question                                                                 | Yes | No |
|--------------------------------------------------------------------------|-----|----|
| Does your bank have a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit? | 160 | 40 |

The survey results indicate that from the perspective of Islamic banks’ employees, Islamic banks in Bahrain have been practicing most aspects of the Sharia governance as per the governance standards of the AAOIFI. It can show from their answers to the 9 Sharia governance-related questions where the majority of the respondents answered “yes” to 7 out of 9 questions in the questionnaire. Only in the two questions namely “Does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board?”, and “Are the rulings of SSB at your bank legally binding?”, The majority of the respondents answered “no.” These results need particular attention since they might be due to the lack of knowledge or the Islamic banks have not widely practiced probably a specific aspect of Sharia governance in Bahrain. To get a better understanding of the practice of Sharia governance among Islamic banks in Bahrain, the next subsection presents the interview results with the Sharia scholars.
**Interview Results**

As it has mentioned earlier, 2 Sharia scholars namely Shaikh Essam Ishaq and Mohammed Burhan Arbouna interviewed to get a better understanding of Sharia governance practices among Islamic banks in Bahrain. The results of the interview presented in the next paragraphs.

**Shaikh Essam Mohammed Ishaq**

During the interview, Shaikh Essam Ishaq’s answers to the 9 yes or no questions can be summarized by Table 11.

| No  | Statement                                                                 | Answer (Yes or No) |
|-----|---------------------------------------------------------------------------|--------------------|
| 1   | Are the AAOIFI governance standards and the IFSB’s guiding principles on Sharia governance system adopted as the guidelines for Sharia governance at your bank? | Yes                |
| 2   | Does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board? | Yes                |
| 3   | Does your bank have a written policy that sets out the SSB members’ appointment, composition, selection and dismissal? | Yes                |
| 4   | Are the rulings of SSB at your bank legally binding? | Yes                |
| 5   | Does SSB play supervisory and advisory roles on Sharia matters in your bank? | Yes                |
| 6   | Are the members of SSB independent? | Yes*               |
| 7   | Does your bank have written policies on Sharia review procedures, quality assurance and the report? | Yes                |
| 8   | Do the SSB members at your bank have the access to all records, transactions and information to conduct the Sharia Review? | Yes                |
| 9   | Does your bank have a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit? | Yes**              |

*The degree of independence is still in question given most of the Sharia scholars are still sitting in many IFIs.

**There is a written document but not sure it is called a charter.

Based on Shaikh Essam Ishaq’s answers, it can be concluded that Islamic banks in Bahrain have practiced most aspects of Sharia governance at least in the context of Al-Baraka Islamic Bank where he is currently attached. However, there are some comments and points that he raised with regards to the practice. First, with regards to the independence of SSB members, he is in the opinion that even though the
members still considered as independent, the degree of autonomy is always in question since there is no necessary mechanism at the central regulatory and authority level to ensure the level of autonomy of SSB members. With multiple representations in many Islamic banks’ board, the level of independence of SSB members should be monitored. Second, about a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit, there is a reference or a written document that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit. However, Shaikh Essam Ishaq is not sure whether the reference can be called a charter or not since he is not a legal specialist. Last, with regards to the written policy that sets out the SSB members’ appointment, composition, selection, and dismissal, Shaikh Essam Ishaq mentioned that there are terms of reference used by the Islamic banks in Bahrain with regards to the appointment, composition, selection, and removal of SSB members.

Comparing Shaikh Essam Ishaq’s answers to the answers of Islamic banks’ employees participated in the survey, it can be concluded that most of the answers are the same except for the answer to question no. 2 and no. 4. With regards to question no. 2, even though the majority of Islamic banks’ employees are not aware of the chart, Shaikh Essam Ishaq’s answered, “yes” to the question. He mentioned that Al-Baraka Islamic Bank provides the chart on its website. Referring to the bank’s website, it is found that in the bank’s annual report, there is a chart showing the bank’s governance structure. There is a possibility that the Islamic banks’ employees are not aware of it. Therefore, the Islamic banks in Bahrain need to pay attention to this aspect of Sharia governance. With regards to question no. 4, Shaikh Essam Ishaq mentioned that SSB’s rulings are legally binding and not persuasive as per the opinion of Islamic banks’ employees. The lack of knowledge that the Islamic banks’ employees have in these regards needs to be addressed by the banks and other Islamic finance stakeholders in the kingdom.

For the 5 open ended questions, Shaikh Isam Ishaq’s answers are presented as follows:

**Question 1:** What is the current landscape of Sharia governance in Bahrain?

**Answer 1:** With regard to the effectiveness of AAOIFI governance standards application, at the current stage, the standards are still not yet at the stage of legally binding to all IFIs in Bahrain. The standards are still used as guidance. There is a need of further discussion between all stakeholders including the industry practitioners on how to improve the standards and make the standards legally binding to all IFIs in Bahrain.

**Question 2:** What are the relevant laws related to Sharia governance in Bahrain?
Answer 2: There are no specific laws related to Sharia governance in Bahrain. There is only a directive regarding the practice issued by the regulatory authority.

Question 3: Who are the important stakeholders of Sharia governance in Bahrain?

Answer 3: The most important stakeholder is the regulator which is in this case is the Central Bank of Bahrain (CBB), the second most important stakeholder is the Islamic banks themselves in the senses of the management, the shareholders, the Sharia Supervisory Board and the external Sharia reviewers and/or auditors of the banks which is a new trend within Islamic financial industry.

Question 4: Is there any legal case in Bahrain that have implications for Sharia governance?

Answer 4: Shaikh Isam is not aware of any legal case in Bahrain that have implications for Sharia governance.

Question 5: What are the challenges faced by Islamic Banks in Bahrain in Sharia governance practice?

Answer 5: The main challenge is the issue of objectivity and the independence of various stakeholders such as the internal Sharia audit department, Sharia supervisory board of each bank, and Sharia boards of the central banks.

Mohammed Burhan Arbouna (Sharia Scholar No. 2)

With regards to the 9 “yes or no” questions, Arbouna’s answers are summarized in Table 12. Based on Table 12, it can be concluded that all aspects of Sharia governance mentioned in the interview questions are practiced by Islamic banks in Bahrain at least in the context of Al-Salam Bank where Arbouna is currently attached. However, for question no. 4, Arbouna pointed out during the interview that the SSB’s rulings are binding by theory indicating there might be a deviation in practice. The answer of Arbouna might explain why the majority of Islamic banks’ employees participated in the survey answered “no” to question no. 4. They further argued in their comments that the SSB’s rulings are “persuasive” instead of “binding.” Obviously, more investigation in this aspect is needed. Regulator and Islamic banks in Bahrain need to pay special attention in this regard. With regards to question no. 2, even though the majority of Islamic banks’ employees are not aware of the chart, Arbouna answered, “yes” to the question. Referring to Al-Salam bank’s website, the chart is available in the annual report of the bank. Therefore, the Islamic banks in Bahrain should address the lack of knowledge of the employees in these regards.
Table 12. Dr. Arbouna’s Answers to the 9 Sharia Governance Questions

| No | Statement                                                                 | Answer (Yes or No) |
|----|---------------------------------------------------------------------------|--------------------|
| 1  | Are the AAOIFI governance standards and the IFSB’s guiding principles on Sharia governance system adopted as the guidelines for Sharia governance at your bank? | Yes                |
| 2  | Does the bank publish a chart, which explains its governance structure including the Sharia Supervisory Board? | Yes                |
| 3  | Does your bank have a written policy that sets out the SSB members’ appointment, composition, selection and dismissal? | Yes                |
| 4  | Are the rulings of SSB at your bank legally binding?                      | Yes*               |
| 5  | Does SSB play supervisory and advisory roles on Sharia matters in your bank? | Yes                |
| 6  | Are the members of SSB independent?                                       | Yes                |
| 7  | Does your bank have written policies on Sharia review procedures, quality assurance and the report? | Yes                |
| 8  | Do the SSB members at your bank have the access to all records, transactions and information to conduct the Sharia Review? | Yes                |
| 9  | Does your bank have a charter that specifies the purpose, authority, and responsibility of the Sharia internal review department or unit? | Yes                |

*Binding by Theory

Regarding to the 5 open ended questions, Dr Arbouna’s answers are presented as follows:

**Question 1:** What is the current landscape of Sharia governance in Bahrain?

**Answer 1:** There is a lot of developments in this area given Bahrain’s status as one of the Islamic financial hubs.

**Question 2:** What are the relevant laws related to Sharia governance in Bahrain?

**Answer 2:** Until the time the interview took place, there are no relevant laws in the kingdom related Sharia governance. Therefore, there is a need to create it.

**Question 3:** Who are the important stakeholders of Sharia governance in Bahrain?

**Answer 3:** the important stakeholders to the Sharia governance are the public and the regulatory authorities. The public put their money in the Islamic banks because they want to comply their financial transactions with Sharia. While the regulatory authorities such as the Central Bank of Bahrain are mandated to ensure all Islamic banks in the kingdom are Sharia compliant. Therefore, they want to make sure the Sharia governance takes place within Islamic financial industry.
Question 4: Is there any legal case in Bahrain that has implications for Sharia governance?

Answer 4: Until the interview took place, there is no legal case in Bahrain so far that have implications for Sharia governance.

Question 5: What are the challenges faced by Islamic Banks in Bahrain in Sharia governance practice?

Answer 5: Dr. Arbouna is in the opinion that the lack of broad-based governance standards as a major challenge faced by Islamic banks in Bahrain in the practice Sharia governance.

Discussion

Based on the survey and interview results, it can be concluded that Islamic banks in Bahrain are committed towards most aspects of Sharia governance requirements as per the AAOIFI governance standards. However, it is important to note that the AAOIFI governance standards are still not legally binding to Islamic banks in Bahrain to follow. The standards only serve as guidance or guidelines for the banks for their Sharia governance practice. Both scholars reveal that there is a lack of broad-based governance standards that requires further discussion between all stakeholders including the industry practitioners on how to improve the current AAOIFI governance standards to make the standards legally binding to all IFIs in Bahrain. This is actually in line with the findings of Farook and Farooq (2011), who mentioned that lacking universally acceptable Sharia governance standards is one of the most significant challenges facing the Islamic financial industry. Kassim et al. (2013), who mentioned that the currently available governance standards or Sharia governance guidelines frameworks are not comprehensive enough? Thus, a standard broad Sharia guidelines framework needs to develop. Haqqi (2014) who mentioned that Sharia governance reforms are required to create a harmonized Sharia governance rules for IFIs and Hidayat (2017) who suggested that the application of a common standard like the AAOIFI standards across jurisdictions would undoubtedly improve the Sharia governance practices within Islamic financial industry. Therefore, the CBB has to make sure that a common Sharia governance framework is to follow in the future.

Another critical note to highlight is the absence of specific laws related to Sharia governance in Bahrain. Currently, there is only a directive regarding the Sharia governance practice issued by the regulatory authority. To address this issue and the issue of lacking a common standard, the CBB has come out with a new Sharia governance module, which will be implemented, in early 2018. The

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implementation of the new module could be the answer to this challenge. With regards to the independence of SSB members, the survey and interview results reveal that SSB members are independent. However, there are comments from some Islamic banks’ employees and a Sharia scholar in this regard. Islamic banks’ employees mentioned that many members of SSB of the Islamic banks in Bahrain are international respected Sharia scholars who sit on the boards of several Islamic banks around the world. The situation has made some respondents to question their level of independence. Also, Shaikh Essam Ishaq is in the opinion that even though the members still considered as independent, the degree of independence is still in question since there is no necessary mechanism at the central regulatory and authority level to ensure the level of autonomy of SSB members. This finding is somehow in line with the argument of Farook and Farooq (2011) who mentioned that the multiple representations of most Sharia scholars in the SSB might pose a threat to the independence of the SSB members. Therefore, it is vital for all Islamic finance stakeholders to pay attention to this aspect since Ahmad (2014) argue that effective SSB is critical mainly in harmonizing the Sharia governance framework for Islamic banks and one of the reflections of an effective SSB is its independence.

Comparing the survey and interview results, it can be seen that both Islamic banks’ employees and the two Sharia scholars are in the same opinion in most aspects of Sharia governance practice by Islamic banks in Bahrain. However, there are two aspects where the survey results are different from the interview results. First, with regards to the chart that explains its governance structure including the Sharia Supervisory Board. While the majority of Islamic banks’ employees participating in the survey are not aware of it, both Sharia scholars are sure that their Islamic banks had the chart and made it available on the banks’ websites. Second, with regards to the position of SSB’s rulings, the majority of the respondents are of the opinion that the rulings are not legally binding and they are persuasive. On the other hand, both Sharia scholars are of the opinion that the SSB’s rulings are binding at least by theory. Therefore, the above two aspects require more attention of Islamic banking regulator, management of the Islamic banks and other Islamic finance stakeholders in the kingdom. There should be a more transparent policy than the current one which must be created by Islamic banks in Bahrain to address the above issues.

Conclusion
This study managed to achieve its objective that is to evaluate the level of Islamic banks’ commitment towards Sharia Governance in the Kingdom of Bahrain. Based on the survey and interview results, it can be concluded that Islamic banks in
Bahrain are committed towards most aspects of Sharia Governance requirements. Even though there are no specific laws related to Sharia governance in Bahrain and the AAOIFI governance standards are only adopted as the guidelines/guidance for Sharia governance practices, the banks still practice if not all, most aspects of the Sharia governance as per the AAOIFI governance standards. This is undoubtedly an excellent example of Sharia governance practice and can be used as a reference for other countries.

Despite the above good results, this study also comes out with some recommendations to enhance Sharia governance practice among Islamic banks in Bahrain and some suggestions for further studies: First, Islamic banking regulator in Bahrain (CBB) needs to come out with a precise mechanism to ensure the level of independence of SSB members. Second, There is a need for reviewing; amending and enhancing the current AAOIFI governance standards to ensure the standards can be made legally binding for all IFIs in Bahrain to follow. Involving industry stakeholders such as the industry practitioners and academicians in the review process of the standards will undoubtedly improve the level of acceptance of the standards. Third, There is a need for enhancing the employees’ awareness of Sharia governance practices at their respective banks. Placing the chart that explains the banks’ governance structure including the Sharia Supervisory Board on more visible parts of the banks’ websites will help the banks to improve the employees’ awareness of their Sharia governance practices. Fourth, The regulator and the banks’ management must ensure that the SSB rulings are binding at their banks. Also, the employees should be made aware of it through circulars, pieces of training and seminars.

Fifth, Since this study only covers some aspects of the Sharia governance as per the AAOIFI standards. The future research can include other issues of Sharia governance, which are not involved by this study in its questionnaire and interviews such as the Audit and Governance Committee within Islamic banks in Bahrain, and the statements of governance principles for IFIs. Sixth, since this study only surveyed the opinion of employees of Islamic banks and interviewed 2 Sharia scholars in Bahrain to conclude the Sharia governance practices among Islamic banks in Bahrain, including more stakeholders in the survey and interviewing other stakeholders such as the regulator will complement this study. Seventh, future studies can examine the relationship between the commitment towards Sharia governance requirements and the Islamic banks’ financial performance. Eight, future studies also can also extend this study by evaluating the Sharia governance’s responsibilities of Takaful companies in the kingdom.
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