THE PERFORMANCE OF *SHARI'A* SUPERVISORY BOARDS WITHIN ISLAMIC FINANCIAL INSTITUTIONS IN THE GULF COOPERATION COUNCIL COUNTRIES

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Abstract

This study evaluates the role and performance of Shari'a Supervisory Boards (SSB) within Islamic Financial Institutions (IFIs) of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates). Although the SSB has a significant impact on an IFI's performance, there has been little empirical research on the SSB performance. This study is unique in measuring empirically the relation between five variables and SSB performance. Data has been collected through a questionnaire from 76 Shari'a Supervisory Boards, 73 Boards of Directors, and 59 shareholders of IFIs in the GCC countries during 2009. The researchers found three variables that have a positive impact on the performance of SSBs: the number of SSB meetings, the qualifications of SSB members, and the evaluation of each member. Furthermore, the work of the Shari'a control department was found to have a negative impact on SSB performance. There was no statistically relationship between SSB performance and SSB position within the IFI organization structure. This study fills a literature gap in corporate governance by evaluating the impact of a religious board upon the performance of financial institutions. The study provides a theoretical framework for measuring SSB performance using internal variables. This study offers insights to GCC regulators, central banks, and other IFI stakeholders concerning SSB performance. In addition, it provides guidance to SSB members in improving their performance and strengthening their relations with other governance organs.

Keywords: Supervisory Board, Management Board, Annual Meeting, Gulf States, Shari'a

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Introduction

Islamic Financial Institutions

The universe of Islamic concepts that governs financial affairs differs from the paradigms of Western economic behavior. Under Islam there is no separation between religious life and business life (Nicholas, 1994:9). The principles of the Islamic financial system are derived from the Islamic canon law (*Shari'a*), which prohibits contracts based on interest (Quran, 2:275; Gerrard and Cunningham, 1997:205; Haque, 1999; Khan and Mirakhor, 1992:2), or exploitation between buyers and sellers (Ibn Abidin, 1836; Saleh and Ajaj,1992), or combative relationship between two contracting parties (gambling) (Rosenthal, 1975:3), or some lines of business such as arms, alcohol, and tobacco (Wilson, 1997:1332). All IFIs officially and practically abide by Islamic *Shari'a* in their activities.

During the period of 2002-09, the number of Islamic banks in the GCC region has increased from 31 to 110 (Table 1). The growth results from the high liquidity in the region due to the increase in oil prices and the desire of investors to retain their investments in Islamic financial products, which are perceived as having less risk (Wilson, 1991:206).

TABLE (1). The Number of Islamic Banks In The GCC Countries

Country	2002	2003	2004	2005	2006	2007	2008	2009
Bahrain	10	10	14	15	17	18	22	25
Kuwait	12	12	13	14	19	20	40	40
Qatar	3	3	3	3	4	4	11	11
Saudi Arabia	3	3	3	4	4	4	17	17
UAE	3	3	4	4	4	4	17	17
Total	31	31	37	40	48	50	107	110

Sources: GCC Central banks; GCC Stock Exchanges; Zawya (2009); IFIS (2009); CIBAFI (2009); Arab Banking and Finance Directory (2009-10); McKinsey & Company (2008-09); Kulathakal (2007)

FIGURE (1). THE HISTORICAL TIMELINE OF THE ISLAMIC FINANCIAL INSTITUTIONS
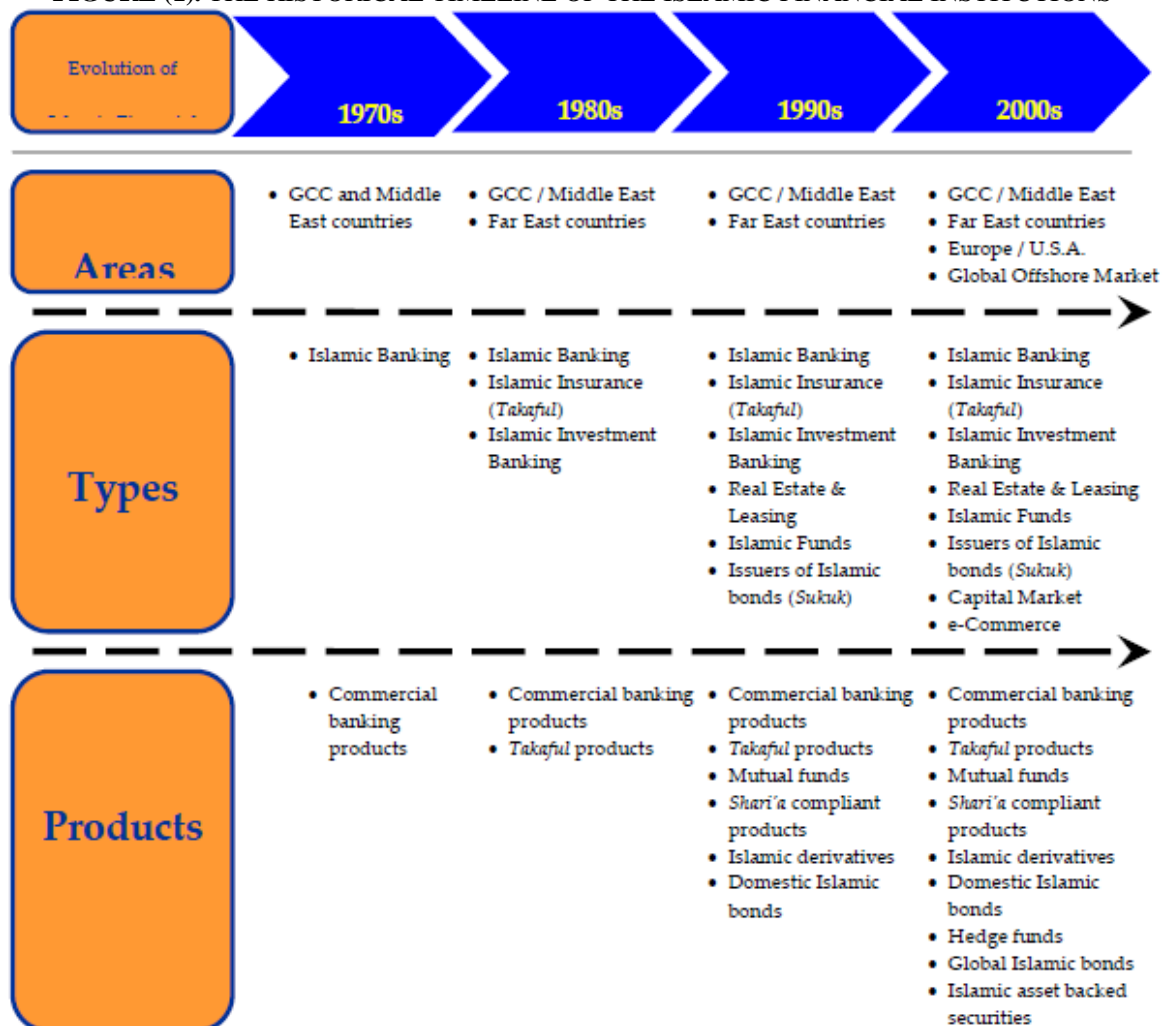
Source: Thomas et al., 2005:5; OICV-IOSCO, 2004:16

The first phase of growth of IFIs began in Egypt in the 1970s and spread rapidly through the Middle East, the Far East, Africa, Europe and the U.S.A. The oil boom during the 1970's was synergistically linked to the growth of the financial sector in the GCC (Wilson, 1990). During the 1970's, Islamic banks focused upon providing commercial banking products. Thereafter in the following decades, the IFIs not only grew in number but also in terms of the products, contracts, and services offered by each institution. Figure 1 illustrates the expansion of IFIs from the Middle East and North Africa countries to Europe and U.S.A, and the diversification in products and transactions from individual financial products to hedge funds, issuance of bonds, and asset backed securities.

In 2009, the number of IFIs in the Gulf Cooperation Council (GCC) countries was 219 out of a total of 458 worldwide. Table 2 indicates that 54% of the IFIs are Islamic retail and investment banks, 18% are insurance companies, 12% are real estate companies, 9% are capital market institutions, and 7% Islamic funds.

TABLE (2). THE NUMBER OF ISLAMIC FINANCIAL INSTITUTIONS WORLDWIDE

No.	Country	Bank	Insurance	Investment Bank	Capital Market	Real Estate	Fund	Total
1	Albania	1						1
2	Algeria	2						2
3	Australia		1		1		1	3
4	Azerbaijan	1						1
5	Bahrain	7	9	18	3	3		40
6	Bangladesh	5	1	1				7
7	Bosnia / Herzegovina	1						1
8	Brunei		2			1		3
9	Egypt	2				1		3
10	Gambia	1						1
11	Germany		3					3
12	Guinea	1						1
13	India			1	1			2
14	Indonesia	3	2					5
15	Iran	12	1	2	1			16
16	Iraq	1				1		2
17	Jordan	2	3	2				7
18	Kenya	1						1
19	Kuwait	3	6	37	13	19		78
20	Lebanon	3	1	2				6
21	Malaysia	16	12	3			3	34
22	Mauritania	1				1		2
23	Niger			1				1
24	Nigeria						1	1
25	Pakistan	8	3	10		6	2	29
26	Palestine	4						4
27	Philippines	1						1
28	Qatar	6	2	5	2	4	1	20
29	Russia	1						1
30	Saudi Arabia	9	15	8	5		1	38
31	Senegal	1	1					1
32	Singapore	1	1					2
33	South Africa	1		1			3	5
34	Sri Lanka		1					1
35	Sudan	10	5	7	1	5	2	30
36	Switzerland			2			1	3
37	Syria	3	3					6
38	Thailand	1						1
39	Tunisia		1	1		1		3
40	Turkey	2	1	3				5
41	UAE	10	7	7	11	3	5	43
42	UK	6	4	4	2	7	5	28
43	USA			4		3	5	12
44	Yemen	3		1				4
	Total	**130**	**83**	**120**	**40**	**55**	**30**	**458**

Sources: GCC Central banks; GCC Stock Exchanges; Zawya (2009); IFIS (2009); CIBAFI (2009); Arab Banking and Finance Directory (2009-10); McKinsey & Company (2008-09); Kulathakal (2007)

Note: the countries highlighted in yellow are the GCC countries

The data indicates that IFIs are gaining in maturity in the traditional banking industry and growing in importance in the international financial markets. In addition, the data highlights the importance of the GCC countries relative to other regions in hosting 48% of the IFIs (Hussain et al., 2002:350).

The *Shari'a* Supervisory Board (SSB)

IFIs differ from conventional financial institutions because they are controlled by two boards: the Board of Directors (BoD), and the *Shari'a* Supervisory Board (SSB). The BoD within an IFI has a similar role and function to that of a traditional board; however, the SSB has a distinctive, powerful and authoritative role in controlling the activities of an IFI (El-Khelaifi, 2005). The SSB is normally an

independent panel of *Shari'a* scholars that has advanced and substantial experience in Islamic finance and Islamic commercial jurisprudence. These scholars are required to explain *Shari'a* rules and educate the management of the IFI in Islamic law (Abdullah, 1997:251; Al Qattan, 2004:9). The articles of association of IFI usually contain details of the appointment of the members of the SSB and identify the responsibilities and authorities of the SSB (Al Baali, 1991:217; Hammad, 2006:36; Fayyad, 2004:25). The articles of association are normally aligned with the shareholders' commitment in conducting a *Shari'a*-compliant business (Abu Ghudda, 2001:5; Hammad, 2002:3; Hassan, 2001:18).

The SSB has supervisory functions and consulting functions. The supervisory functions include: (1) issuing of *fatwas* (authoritative legal interpretations of *Shari'a*) and *Shari'a*-compliant decisions prior to the execution of transactions by the IFI, (2) approving new products, contracts, and services, (3) auditing the procedures of implementing new products in collaboration with *Shari'a* internal auditors, (4) auditing the financial statements at the year end, and (5) approving the distribution of net income between shareholders and investment account holders. The consulting functions include: (1) finding *Shari'a*–compliant solutions during the implementation of contracts, (2) explaining the method of calculating the due *Zakat* (in this case 2.5% of the IFI's annual wealth donated for charity as almsgiving), (3) guiding the management in allocating the non-*Shari'a* income for charitable purposes, and (4) conducting workshops and lectures for management and clients.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) governance standard requires that an SSB must have at least three members (AAOIFI, Governance Standards, 2008: 4; Hassan, 2001:8). However, the current number of qualified *Shari'a* scholars is 100 (appendix 1) but yet the number of IFIs in the GCC is 219, and so the available supply of qualified *Shari'a* scholars is significantly lower than the number of IFIs. This acute shortage of *Shari'a* scholars has resulted in *Shari'a* scholars sitting on a number of SSBs, which significantly limits the amount of time that they can devote to each SSB (Al Qattan, A. 2008:3; Hameed, 2009:11). The multiple memberships also significantly reduces the amount of time that they devote for meeting with the management on a regular basis (Al Qattan, M. 2008:15; Mashal, 2008:3). Al Deen (2009:15) has recommended that each SSB should have a full-time member to ensure that the regular needs of the management are met and to overcome the limited contribution of other members of the SSB.

IFIs do not have a standard position for the SSB on their organization charts. Nevertheless, the AAOIFI governance standard recommends that the SSB should be under the shareholders to ensure independence from management and appropriate authority levels (AAOIFI governance standard No. 1, 2008). If the SSB is located at the same level as the BoD, it release the SSB from any restrictions that might be imposed by the BoD or the executive management. This position is illustrated in Figure 2 and examples of IFIs that have this type of structure include Al Baraka Islamic Bank in Bahrain and Al Rajhi Bank in Saudi Arabia.
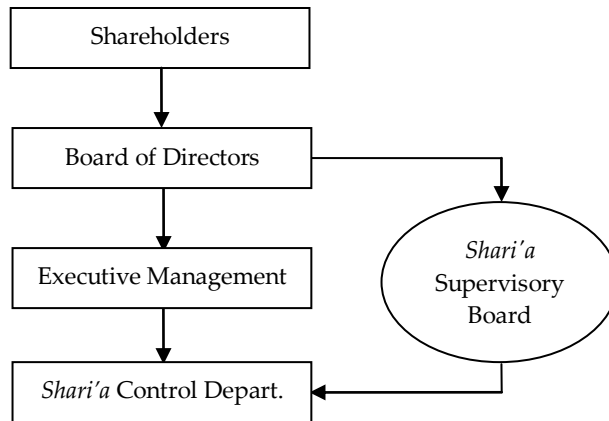
FIGURE (2). THE SSB HIERARCHICAL POSITION IN THE ORGANIZATION CHART
(First Model)
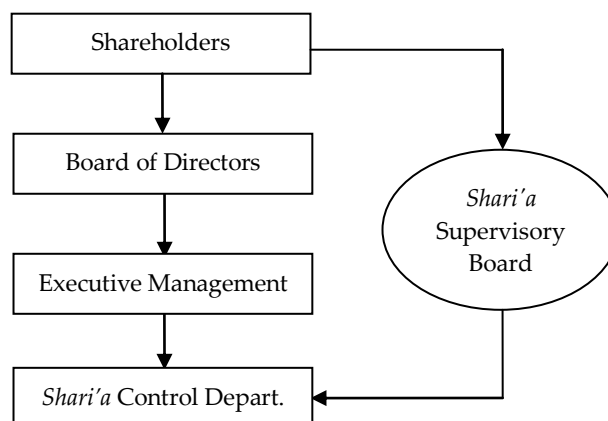
Some IFIs place the SSB under the BoD and at the same level as the executive management. This position in the hierarchy can affect SSB performance due to the BoD restrictions being imposed. An example of an IFI that has this type of structure is the Arab Banking Corporation – Islamic Bank in Bahrain. This relation is presented in Figure 3.
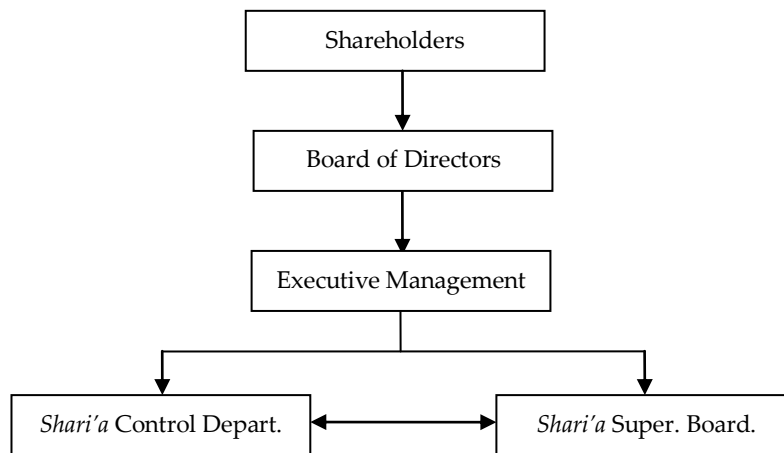
FIGURE (3). THE SSB HIERARCHICAL POSITION IN THE ORGANIZATION CHART
(Second Model)

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                    ┌─────────────────┐
                    │  Shareholders   │
                    └────────┬────────┘
                             │
                    ┌────────▼────────┐        ┌──────────────┐
                    │ Board of Directors │──────│              │
                    └────────┬────────┘        │   Shari'a    │
                             │                  │  Supervisory │
                    ┌────────▼────────┐        │    Board     │
                    │ Executive Management │    └──────┬───────┘
                    └────────┬────────┘               │
                             │                         │
                    ┌────────▼────────────────◄────────┘
                    │ Shari'a Control Depart. │
                    └─────────────────────────┘
```

Very few IFIs place the SSB under the executive management. Those that do have few products that need SSB approval on only the first occasion before they are released like insurance policies for insurance companies and lease contracts in real estate companies. In this context, the IFI does not need to establish an SSB due to the small amount of work, but may recruit a single *Shari'a* advisor. Examples of IFI's that have this type of structure are Al Khaleej Development Company "Tameer" and Sakana Holistic Housing in Bahrain. This relation is illustrated in Figure 4.

FIGURE (4). THE SSB HIERARCHICAL POSITION IN THE ORGANIZATION CHART
(Third Model)

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                    ┌─────────────────┐
                    │  Shareholders   │
                    └────────┬────────┘
                             │
                    ┌────────▼────────┐
                    │ Board of Directors │
                    └────────┬────────┘
                             │
                    ┌────────▼────────┐
                    │ Executive Management │
                    └────────┬────────┘
              ┌──────────────┴──────────────┐
    ┌─────────▼──────────┐        ┌─────────▼──────────┐
    │ Shari'a Control Depart. │◄──►│ Shari'a Super. Board. │
    └────────────────────┘        └────────────────────┘
```

Shari'a Standards

The AAOIFI was established in Bahrain in 1991 by the major Islamic banks as a self-regulatory agency (Archer and Karim, 2002:56). AAOIFI is currently supported by 200 institutional members from 45 countries (AAOIFI, 2010), and has a mandate to promulgate accounting and auditing standards that fill the gaps within the International Accounting Standards which do not deal with Islamic banking transactions (Karim, 1998, 2001). The Accounting standards of AAOIFI differ from Accounting International Standards in requiring more disclosure, transparency, and comparability of the financial reporting (Archer et al., 2002:56; Olson and Zoubi, 2008:52). In addition, AAOIFI promulgates *Shari'a* standards in order to harmonize *Shari'a* rulings among the IFIs across the different jurisdictions (Archer et al., 2002: 56). To date, AAOIFI has issued 26 Accounting standards, 5 Auditing standards, 7 Governance standards, 2 codes of ethics, and 35 *Shari'a* standards. In the GCC region, AAOIFI standards are mandatory in Bahrain only. In the other countries, the standards operate as guidelines (Archer et al., 2002: 56; Kamla, 2007:118).

LITERATURE REVIEW

SSB members provide confidence to stakeholders (i.e., clients, creditors, regulators, and auditors) about

the Islamic compliance of the IFIs' transactions. This confidence is based upon the SSB members' well-respected position in the community (Al Aydarous, 2009:21; Mohammed, 2009:17). Researchers have found that if clients do not receive approval from the SSB on each contract, they consider that the IFI is violating its core principle of being Islamic (Bariyan, 2009:23; Omar, 2002:18). The SSB is therefore perceived as significantly adding economic value to the IFIs (El-Khelaifi, 2002:5). The implementation of *Shari'a* rules and regulations has also been perceived by some stakeholders as reducing injustice and exploitation (Zighaba, 2009:20). One researcher has identified that the existence of an SSB is positively related to an IFIs' profitability (El-Khelaifi, 2002:5).

The outcomes of the SSB meetings are usually delivered to the relevant department(s) along with *Shari'a* Control Department (SCD), which consists of several *Shari'a* internal auditors who are responsible for controlling the implementation of SSB *fatwas* and decisions. The AAOIFI governance standard states that the key duty of an SCD is to assure that all activities are *Shari'a* compliant and that the SSB *fatwas*, decisions, and recommendations are fully implemented (AAOIFI, Governance Standard No. 3, 2008).

RESEARCH HYPOTHESES

Our research has used a systematic framework to examine SSB performance. Inputs to the system include the qualifications of the SSB members and the position of the SSB within the organization hierarchy. The SSB process includes the work inside the SSB boardroom measured by their frequency during the year, the duration of each meeting, the number of decisions and *fatwas*, and the control over the management through the SCD. The output includes the regular evaluation of SSB performance whether individually for each member or collectively for the whole SSB or both and is measured by answering management and clients' inquiries, approving new products, reviewing the results of SCD work, and finding *Shari'a* solutions to possible hindrances that might appear during the implementation of new products. These elements are illustrated in Figure 5.

FIGURE (5). THE ELEMENTS OF SSB PERFORMANCE
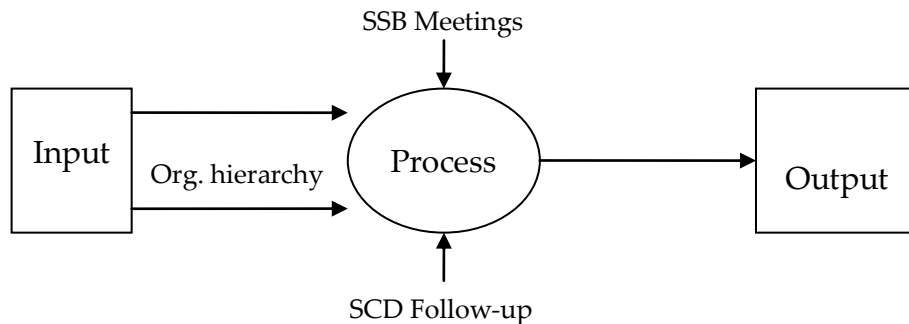
Five hypotheses have been developed:

Hypothesis 1. The impact of SSB meetings on SSB performance is positive and statistically significant

The researchers postulate that if the frequency of the SSB meetings is increased there will be a causal improvement in SSB performance as measured by *fatwas* issued and education of executive management in *Shari'a* matters will be improved. This hypothesis aligns with earlier research (Al Nashmi, 2002:12; Al Qattan, 2004:48; Al Yaseen, 1997). Both Al Nashmi (2002) and Al Yaseen (1997) examined theoretically the relationship between the frequency of SSB meetings and improved better performance. However, Al Qattan (2004) examined the relation empirically on Kuwait Finance House in Kuwait. They all found that a positive statistically significant relationship existed and recommended that SSB meetings should be held weekly or monthly. This study extends the research by adding more variables in evaluating the SSB performance within the IFIs in the GCC region.

Hypothesis 2. The impact of SCD work on SSB performance is positive and statistically significant

SCD work is measured by the number of ex-ante or ex-post *Shari'a* audits of IFIs transactions, and the number of reports issued by the SCD to the SSB. The outcomes of the SCD reports guide the SSB members and enable them to make better decisions which lead to improved performance. Previous research (Abu Ghudda, 2001:17; Al Biltagi, 2009:13; Al Deen, 2009:17; Al Qattan, 2008:14; Hameed, 2009:12; Hammad, 2006:52) have all emphasized theoretically

the importance of the SCD role in the IFIs and its relation to the SSB performance. In addition, Al Nashmi (2002) has suggested that the existence of the SCD enhances stakeholders' confidence in the IFI. Hence, the second hypothesis assumes the same relation and tries to measure empirically evaluates what previous studies have theoretically proposed.

Hypothesis 3. The impact of SSB qualifications on SSB performance is positive and statistically significant

The SSB qualifications include religious qualifications, professional qualifications, and personal characteristics. The religious qualifications cover the advanced knowledge of Islamic *Shari'a*, which includes understanding and interpreting the Islamic *Shari'a* in different aspects of life including financial transactions (AAOIFI governance standard No. 1, 2008; Al Ghazali, 1997:383-387; Al Harani, 1977:4; Al Mawardi, 2000:3870-3875). Terminal degrees from Islamic universities in Islamic jurisprudence have been found to be considered very favorably (Al Qorradaghi, 2008). SSB members are also expected to master the Arabic language (Al Baali, 1991:224; Hammad, 2006:46). Previous studies (Abu Ghudda; 2001; Ahmed, 2003; Al Baali, 1991; Al Bouti, 2008; Al Tartouri, 1997; Hassan; 2001; Hameed, 2009) have extensively discuss these qualifications and identified that qualifications are positively and statistically significantly related to superior SSB performance.

Professional qualifications include advanced knowledge in finance, economy, auditing, law, and English language (Al Kaffrawi, 1986:260; Awad, 1985:18; Bahgat, 1994:20). These qualifications add a new dimension to the SSB work because they enable the SSB members to issue *fatwas* that can be implemented within the legal framework of the country and within the needs of the IFIs. Several studies (Al Bayrkdar, 2008:15; Al Deen, 2009:14; Al Nashmi, 2002:6; Al Qaradawi, 2000:17; Al Qattan, 2008:7; Al Saleh, 2009:22) have identified a positive impact of these qualifications on the SSB performance.

A study of 60 IFIs (Baker, 2001) indentified that most of the SSBs members are experts in *Shari'a* only, rather than law, economics and finance. The study confirmed that 77% of the SSBs members are experts in *Shari'a*, while 9% are experts in *Shari'a* and law, 11% are experts in *Shari'a*, law, and economics, and 3% are experts in other fields.

SSB members also need to have personal characteristics, which might be difficult to be found in one person (Al Saleh, 2009:22; Al Zarrqa, 1986:74; Shehata, 1987). The personal characteristics include self-satisfaction, confidence in knowledge, willingness to guide Muslims towards legitimate investment, awareness of the community, and being accurate, meek, respectful, and quiet (Al Qari, 2002:3; Quota, 1993:43; Zoair, 1987:5). These characteristics reflect the soundness and maturity which gives credibility to SSB decisions (Al Baali, 1991:232; Al Bouti, 2008:3). Several studies confirm that personal characteristics are positively related to the SSB performance (Al Deen, 2009:14; Al Qattan, 2009:8; Al Saleh, 2009:22; Al Taskheeri, 2003:6).

Hypothesis 4. The SSB position in the organization chart is significantly related to SSB performance

The SSB position in the organizational chart might have impact on the SSB performance because the higher the position, the less interference and control the SSB has from other governance organs. When the SSB is located under the shareholders, the SSB maximizes its performance by acting independently and steering the IFI to become *Shari'a* compliant. Previous studies (Abu Ghudda, 2001; Al Baali, 1991; Al Bayrkdar, 2008; Al Qorradaghi, 2008) have supported this argument and indicated theoretically the positive impact of the hierarchical position on the SSB performance. If the SSB is located below the BoD or the executive management, its performance might be mediocre due to the control of those parties. This argument has been emphasized by other research (Al Saleh, 2009:15; Al Deen, 2009:6), who confirmed theoretically the poor performance of the SSB if it is located under the BoD or the executive management. On the other hand, Hammad (2002) proposed that the SSB should have the same position and responsibilities as the external auditor; nevertheless, Al Taskheeri (2003) argued that SSB should be excluded from the organization chart because of its neutral position in reviewing the IFI's work. Accordingly, we propose that the higher the SSB position in the organization chart, the better performance we expect from the SSB. This paper is going to evaluate this relation empirically, which has not been conducted by other research.

Hypothesis 5. The evaluation of the individual performance of SSB members is significantly related to SSB performance

Every SSB is required to conduct an annual evaluation of its performance. This evaluation must be carried out by the shareholders and must measure the SSB accomplishments either collectively or individually for each member or both. The accomplishments can be measured by the ability of the SSB in issuing relevant *fatwas* and decisions upon management queries promptly and without delay. Some studies (Al Najjar, 2009:26; Al Nashmi, 2002:29; Al Qattan, M. 2008:12; Al Sharif, 2000:2; Hammad, 2002:13) argued that the SSB members

have to do their best because they are motivated by religious principles rather than commercial goals. Furthermore, *Shari'a* scholars are well respected by the BoD and the executive management; hence, business evaluation may not be appropriate. Nevertheless, SSB members will be held liable if they issue *fatwas* without due care or if they do not provide advice and guidance to the IFI. Other studies (Al Bayrkdar, 2008; Al Qari, 2002; Al Salaheen, 2005; Faddad, 2009) emphasized the separation between the evaluation of SSB performance and remuneration, which may weaken the outcomes of the evaluation process as it has no impact on remuneration.

Methodology

Primary data was obtained through questionnaires, which were mailed to all 219 of the IFIs in the GCC countries in June, 2009. The alpha for the performance model was satisfactory at 0.763, which exceeded the standard measure of 0.70 (Cronbach, 1951:297; Nunnaly, 1978). The questionnaire was also examined against different types of validity tests such as face validity, content validity, concurrent validity, criterion validity, predictive validity, and construct validity (Sekaran, 2003:206).

The population included all the IFIs in the GCC countries to produce reliable results. The elements of the population were segmented into three groups: shareholders, BoD (including CEOs if they are board members), and SSB members. The average response rate from each group in the five countries collectively exceeded 20% (Ritchie and Lewis, 2003) as per Table 3 except for two groups of Saudi Arabia (BoD and shareholders), and one group in the UAE (shareholders). Table 3 indicates the details of the response rate for each group.

TABLE (3). Response Rate as a Percentage Of Population

Country	SSB		BoD		Shareholders	
	No.	Rate	No.	Rate	No.	Rate
Bahrain	18	45.00%	19	47.50%	14	35.00%
Kuwait	26	33.33%	29	37.18%	24	30.77%
Qatar	10	50.00%	9	45.00%	9	45.00%
Saudi Arabia	9	23.68%	6	15.79%	4	10.53%
UAE	13	30.23%	10	23.25%	8	18.60%
Average Collection	**76**	**34.70%**	**73**	**33.33%**	**59**	**26.94%**

The questionnaire included five questions which were asked to the SSB members and the BoD. The questions addressed to the SSB members were "*What is the average number of meetings for the SSB in a year?*", "*Does the SCD monitor the implementation of fatwas?*", "*What is the SSB qualification in Islamic jurisprudence?*", and "*What is the relation between the SSB and the other governance organs in the organization chart?*" The question posed to the BoD was "*How is the evaluation process of the SSB accomplished?*"

Empirical Results

Binomial linear regression was used to measure the SSB performance (Stone and Rasp, 1991:170; Maddala, 1991:788). The five independent variables were measured by two groups of questions: questions with scaling answers and multiple choice questions. Table 4 presents the variables based upon scaling answers.

TABLE (4). Scaling Questions Measuring The SSB Performance (N = 76)

Variable	Valid	Missing	Mean	Median	Mode	SD	Min	Max
MEET	76	0	5.8947	6.0000	4.00	2.20048	1.00	9.00
SCD	72	4	4.5972	5.0000	5.00	.78111	1.00	5.00

Note: MEET = number of SSB meetings; SCD = Monitoring of *Shari'a* Control Department

The MEET variable defined the average number of meetings for the SSB in a year. The data was obtained from the SSB members and designed on a scaling level from 1 to 9, where 1 means one meeting, 2 two meetings and it continues up to nine meetings. The MEET variable had a mean of 5.9 and an SD of 2.2, which means that most of the SSBs in the survey hold between five and six meetings per year. In practice, we found that the minimum number of SSB meetings is 2 per annum such as Solidarity in Bahrain and Dalala Exchange in Qatar, while the maximum number of meetings is 9 such as Aerf Investment in

Kuwait, and Al Jazira Bank in Saudi Arabia. Surprisingly, we found one SSB meets once a week in Kuwait Finance House, Kuwait which is a unique case. Otherwise, we found that most of the surveyed SSB meets four times a year.

The SCD variable defined the level of SCD monitoring of the implementation of *fatwas*. The data was obtained from SSB members and designed on a scaling level from 1 to 5 where 1 means not at all, 2 occasionally, 3 frequently, 4 usually, and 5 always. The SCD variable has a mean of 4.6 and an SD of 0.8, which means that most of the SCDs monitor the implementation of *fatwas* all the time.

The second group of questions included three variables based upon multiple choice answers represented in Table 5.

TABLE (5). Multiple choice questions measuring the SSB performance **(N = 76)**

Variable	Frequency	%	Valid		Missing	
			Total	%	Total	%
1. SSB qualification in Islamic jurisprudence						
a. All members are *Shari'a* scholars & some of them are also specialists in finance	46	60.5	60.5	100	0	0
b. Some members are *Shari'a* scholars and others are specialists in finance	15	19.7	19.7	100	0	0
c. All members are specialists in finance	0	0	0	100	0	0
d. All members are *Shari'a* scholars	15	19.7	19.7	100	0	0
2. The process of SSB evaluation						
a. No evaluation at all	49	64.5	64.5	100	0	0
b. Evaluation is made to the SSB collectively	15	19.7	19.7	100	0	0
c. Evaluation is made to each member individually	5	6.6	6.6	100	0	0
d. Evaluation is made to the SSB collectively and to each member individually	7	9.2	9.2	100	0	0
3. SSB Position in the Organization Chart						
a. SSB > BoD	41	53.9	76	100	0	0
b. SSB = BoD	28	36.8	76	100	0	0
c. BoD > SSB > CEO	3	3.9	76	100	0	0
d. SSB < CEO	2	2.6	76	100	0	0
e. Other	2	2.6	76	100	0	0

Note: (SSB > BoD) = SSB is located higher than the BoD in the organization chart; (SSB = BoD) = both SSB and BoD are located at the same level; (BoD > SSB > CEO) = SSB is located lower than the BoD but higher than the CEO; (SSB < CEO) = SSB is located lower than the CEO.

The first variable is QUAL which covers SSB qualifications in Islamic jurisprudence. The data was collected from the SSB members where 60% of the respondents indicated that all the SSB members are *Shari'a* scholars and some of them are also specialists in finance. 20% revealed that some of the SSB members are *Shari'a* scholars while others are specialists in banking and finance. None of the respondents indicated that all the SSB members are specialists in banking and finance, while 20% confirmed that all the SSB members are *Shari'a* scholars. The answers indicate that the largest number of SSB are composed of *Shari'a* scholars and some of them are specialists in finance.

The second variable EVAL covers the evaluation process of the SSB. The data was collected from the BoD where 64% of the respondents indicated the absence of evaluation. About 20%

declared that the evaluation is of SSB overall performance, while 7% confirmed that each member of the SSB is evaluated individually. Only 9% of the replies indicated that the evaluation is applied to each member individually and to the SSB collectively. The results indicate that most of the SSBs are not evaluated neither by the shareholders nor the BoD.

The third variable POST covers the relation between the SSB and the other governance organs in the organization chart. The data was obtained from the SSB members where 54% of the respondents indicated that the SSB is located under the shareholders but higher than the BoD. Meanwhile, 37% confirmed that the SSB and the BoD are located at the same level under the shareholders. A very small percentage of 4% confirmed that the SSB is located under the BoD but higher than the executive management. Also, 3% confirmed that the SSB and

the executive management are located at the same level under the BoD. About 2% of the respondents gave other positions. The results indicate that a large percentage of the SSBs hold a high position in the organization chart which releases them from restrictions that might hinder them from maximizing their performance. The five variables that affect the SSB performance have been combined in the following model.

$$\frac{\pi}{(1-\pi)} = f\left(e^{MEET} X e^{SCD} X e^{QUAL} X e^{EVAL} X e^{POST}\right)$$

.... (1)

The results of testing the model significance are displayed in Tables 6, 7, and 8, where Table 6 reports the omnibus tests of model coefficients. These tests confirm the capability of all predictors in the model jointly to predict the response (dependent variable). The Enter method is employed in the model, where all the terms are entered in one step and receive the same result in step, block, and model. The result of significance reveals the adequate fit of the data to the model, which corresponds to the research conclusion. The table also reports the significance levels by the traditional chi-square and works as an alternative to the Hosmer-Lemeshow (H-L) test in Table 7. The table concludes that the model with the predictors is significantly different from the model with only the intercept. This means that at least one of the predictors is significantly related to the dependent variable. A significance level of $p < 0.10$ was employed (Djolov 2002:333).

TABLE (6)
Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	10.519	5	.062
	Block	10.519	5	.062
	Model	10.519	5	.062

Table 7 reports the H-L test, which is a test for overall fit of a binomial Linear Regression (LR). This test is considered to be more robust than the traditional chi-square test, particularly if continuous covariates in the model or sample size are relatively small as in our model. The H-L test computes the

probability (p) value from the chi-square distribution with 8 degrees of freedom (df) to test the fit of the LR model (Hosmer and Lemeshow, 2000). If the H-L goodness-of-fit test statistic is greater than 0.05 as in the case of our model 0.269, we fail to reject the null hypothesis which indicates the absence of the difference between observed and model-predicted values, implying that the model's estimates fit the data at an acceptable level. In other words, the prediction from the model is not significantly different from the observed values.

Table (7)
Hosmer and Lemeshow Test

Step	Chi-Square	df	Sig.
1	9.949	8	.269

Table 8 reports the measure of -2 Log Likelihood (-2LL), Cox & Snell R^2, and Nagelkerke R^2. The -2LL test indicates the maximum probability we can obtain under two different hypotheses, which should be considered at the time of making a decision. The likelihood ratio test is generally preferred over its alternative "Wald test" in Table 9 because it tests the significance of the model as a whole (Wald, 1943: 426–482). However, as there is no true (R^2) value in LR as in ordinary least sequare regression, the (R^2) for Cox & Snell and Nagelkerke are used as modified versions for the original (R^2). Cox & Snell's measures how much the final model "fitted model" improves over the intercept model "null model", which reflects the goodness of fit of the model. If the final model predicts the outcome perfectly and has a likelihood of 1, the Cox & Snell measure will be less than 1.0 (Lu and Chang, 2009:119). This means the smaller the ratio, the greater the improvement. Thus, Cox & Snell R^2 indicates that the explanatory power of the whole model is 0.136; which means the independent variables explain 13.6% of the change in the dependent variable (*Performance*) (Cox and Snell, 1989). Since Cox & Snell R^2 Value is a conservative value and cannot reach 1.0 Nagelkerke R^2 adjusts Cox & Snell's value so that the range of possible values extends to 1.0 (Cohen, Cohen, West, and Aiken, 2003:503; Nagelkerke, 1991:691).

Tables 6, 7, and 8 together confirm the goodness of fit for the whole model along with its significance.

TABLE (8) Model Summary

Step	-2 Log likelihood	Cox & Snell R^2	Nagelkerke R^2
1	74.563[a]	.136	.196

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

On the other hand, Table 9 presents the predictive success of the LR by showing the correct and

incorrect classifications of the dichotomous, ordinal, or polytomous dependent.

TABLE (9) Classification Table

			Predicted		
			Performance		Percentage Correct
	Observed		Complicate	Facilitate	
Step 1	Performance	Complicate	6	14	30.0
		Facilitate	2	50	96.2
	Overall Percentage				77.8

Note. The cut value is .500

The observed percentages of the SSB that complicate and facilitate the work are 30% and 96.2% respectively which correspond to our prediction and strongly support our hypotheses. The observed groups and predicted probabilities are illustrated in Figure 6.

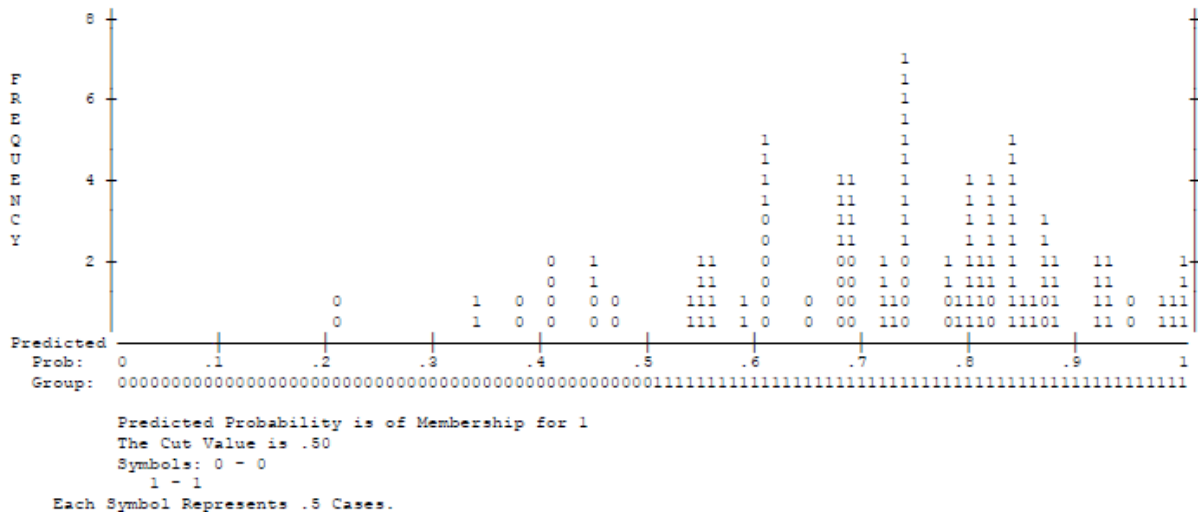**FIGURE (6)** Observed Groups And Predicted Probabilities For Performance Model

Table 10 includes the five predictors or variables used in measuring the SSB performance, which are MEET, SCD, QUAL, EVAL, and POST. The B column indicates either positive or negative relation between the predictor and the SSB performance. The Wald column includes the results of the Wald test for the significance of each predictor. Thus, in the simple logistic, the hypotheses are tested by the likelihood ratio for the full model and the Wald test for the significance of each predictor. The degree of significance is recorded in the 'Sig.' column which indicates that four out of five predictors have significant impact on the performance.

TABLE (10)
Variables in The Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)	95% Confidence Interval for EXP(B)	
								Lower	Upper
Step 1ª	MEET	.285	.151	3.546	1	.060†	1.330	.988	1.789
	SCD	-.654	.391	2.800	1	.094†	.520	.242	1.119
	QUAL	.575	.301	3.654	1	.056†	1.777	.986	3.203
	EVAL	.612	.355	2.969	1	.085†	1.844	.919	3.698
	POST	.408	.399	1.045	1	.307**	1.504	.688	3.289
	Constant	.348	1.752	.040	1	.842**	1.417		

*** $P < 0.001$ ** $P < 0.01$ * $P < 0.05$ † $P < 0.10$
a. Variable(s) entered on step 1: MEET, SCD, QUAL, EVAL, POST

According to the results of Table 10, the following model of SSB performance was created.

$$\frac{\pi}{(1-\pi)} = e^{.348} \chi\, e^{.285(\text{MEET})} \chi\, e^{-.654(\text{SCD})} \chi\, e^{.575(\text{QUAL})} \chi\, e^{.612(\text{EVAL})} \chi\, e^{.408(\text{POST})}$$

The results support the five hypotheses proposed about the SSB performance.

Hypothesis 1.   The impact of SSB meetings on SSB performance is positive and statistically significant

Firstly, the MEET variable has a significant relation with the Performance variable because its significance is less than 0.10. Also, it has a beta of 0.285 which emphasizes the positive relation between the two variables. This finding supports the first hypothesis.

Hypothesis 2.   The impact of SCD work on SSB performance is positive and statistically significant

The result of the SCD predicator indicates a significant relation with the Performance variable because its significance is less than 0.10. However, it has a beta of –0.654 which indicates a negative relation between the two variables. The negative relation might reflect the difference between the theoretical background of SCD work and its practice. Although theoretically, the SCD supports the SSB through its audit and reports; practically, the SCD might do part of the SSB work, so whenever the SCD increases, the SSB performance decreases. Accordingly, the SCD work needs to be minimized or merged with internal audit department to enhance the SSB performance. Thus, the result partially supports the second hypothesis.   ……. (1)

Hypothesis 3.   The impact of SSB qualifications on SSB performance is positive and statistically significant

The result of the QUAL predicator indicates a significant relation with the Performance variable because its significance is less than 0.10. Also, it has a beta of 0.575 which emphasizes the positive relation between the two variables. This result supports the third hypothesis.

Hypothesis 4.   The SSB position in the organization chart is significantly related to SSB performance

The result of the POST predicator indicates an insignificant relation with the Performance variable because its significance ratio is more than 0.10. However, it has a beta of 0.408 which emphasizes the positive relation between the two variables. Hence, we can infer that SSB performance might rely on the SSB members rather than the SSB position in the organization hierarchy. Moreover, a high position might lead to poor performance due to the lack of supervision from other governance organs.

Hypothesis 5. The evaluation of the individual performance of SSB members is significantly related to SSB performance

Finally, the result of the EVAL predicator indicates a significant relation with the Performance variable because its significance is less than 0.10. Also, it has a beta of 0.612 which emphasizes the positive relation between the two variables. This result supports the fifth hypothesis.

In conclusion, our results indicate that SSB performance is significantly and positively related to SSB meetings and SSB qualifications, but negatively related to SCD work , and that no statistically significant relationship exists between SSB performance and organizational structure.

Recommendation

To enhance the SSB performance, it is recommended to encourage the SSB members to hold more meetings. They should also diversify their memberships to enrich their knowledge in economy, finance, audit and commercial law. In addition, the executive management should call the SSB for more meetings to answer the questions and facilitate the work. Finally it is recommended to evaluate the SSB performance individually on a regular basis.

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Qatar Financial Centre Regulatory Authority (http://www.qfcra.com) Retrieved on 28 June 2009
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Appendix (1). The Number of SSBs for Shari'a Scholars in GCC countries

No.	Shari'a Scholar	Bahrain	Kuwait	Qatar	KSA	UAE	Total
1	Abd El-Hady Mohammed Zarie (Ph.D.)					1	1
2	Abdel Aziz Al Gasim (Sheikh)	1					1
3	Abdellatif Derian (Sheikh)				1		1
4	Abdel-Rahman bin Saleh Al-Atram (Ph.D.)				1	1	2
5	Abdul Aziz Al Khulaifi (Sheikh)			1			1
6	Abdul Aziz Al-Qassar (Ph.D.)		11				11
7	Abdul Dayem Abu Al Ma'aali			1			1
8	Abdul Latif Ahmed Al Sheikh (Ph.D.)	1					1
9	Abdul Latif El Mahmoud (Ph.D.)	5			1		6
10	Abdul Mohsin Al Asfoor (Sheikh)	1					1
11	Abdul Qader Al Amarei (Sheikh)			3			3
12	Abdul Rahman ibn Abdullah ibn Aqeel (Sheikh)	1			1		2
13	Abdul Sattar Abu Ghuddah (Ph.D.)	14	7	1	2	7	31
14	Abdulaziz bin Hamad Amishal (Ph.D.)				1		1
15	Abdulbari Mishaal (Ph.D.)		2				2
16	Abdul-Hamid Al-Ba'li (Ph.D.)		2				2
17	Abdulla Mohammed Al Mutlaq (Ph.D.)				4		4
18	Abdullah bin Abdulaziz Al Musleh (Ph.D.)				3	1	4
19	Abdullah bin Bayyah (Sheikh)				1		1
20	Abdullah bin Khunain				1		1
21	Abdullah bin Musa Al-Ammar (Ph.D.)				1		1
22	Abdullah Bin Sulaiman Al Manea (Sheikh)	5			11	1	17
23	Abdullrazaq Al Shayji (Ph.D.)		1				1
24	Abdul Sattar A. Al-Kattan (Sheikh)		5				5
25	Abou Salman Aziz (Sheikh)			1			1
26	AddulAziz bin Fawzan Al Fawzan (Ph.D.)				1		1
27	Adnan Al Qattan (Sheikh)	4					4
28	Adulaziz bin Abulrahman Al Mosnad (Sheikh)				1		1
29	Ahmed Al-Hajji Al-Kurdi (Ph.D.)		1				1
30	Ahmad Bazie Al-Yaseen (Sheikh)	1	8				9
31	Ahmad bin Abdul Aziz bin Baz (Sheikh)				1		1
32	Ahmad bin Humaid				1		1
33	Ahmad Sair Mubaraki				1		1
34	Ahmed Abdul Aziz Al Haddad (Ph.D.)					1	1
35	Ahmed Mohiadeen Ahmed (Ph.D.)				1		1
36	Ajeel Jassim Al-Nashmi (Ph.D.)	3	8			6	17
37	Ali Al Mohamady (Ph.D.)			3			3
38	Ali Moehi El Din Al Qaradaghi (Ph.D.)	3	2	3		5	13
39	Anwar Shuaib Abdulsalam (Ph.D.)	1	5				6

No.	Shari'a Scholar	Bahrain	Kuwait	Qatar	KSA	UAE	Total
	Appendix (2): continued						
40	Dato' Sheikh Gazali bin Abdul Rahman (Sheikh)	1					1
41	Esam Khalaf Al-Enezi (Ph.D.)	1	5				6
42	Essa Zaki Essa Abo-Shaqrah (Ph.D.)	1	12	1			14
43	Essam Mohammed Ishaq (Sheikh)	3	1				4
44	Fareed Mohammed Hadi (Ph.D.)	1					1
45	Fareed Yaqoub Al Miftah	1					1
46	Farees Mohammed Hadi (Sheikh)	1					1
47	Hamad Al Mahmoud (Sheikh)			2			2
48	Hammed Abdulrhman Al –Janidal (Sheikh)				1		1
49	Hamza bin Hussain Al Qamar (Ph.D.)				1		1
50	Hany AbduShakur (Sheikh)				1		1
51	Hasan Al-Shathli (Ph.D.)		2				2
52	Hassan Awad (Sheikh)				1		1
53	Hassan Filimban (Sheikh)				1		1
54	Hussain Hamid Hassan (Ph.D.)	2				11	13
55	Ibraheem al-Jarbou				1		1
56	Ibrahim Abdullah Al- Sibiie (Ph.D.)		1				1
57	Isa Abdulla Al Duwaishan (Sheikh)	1					1
58	Jassem Ali Shamsi (Ph.D.)					1	1
59	Kahlad Al Safei (Ph.D.)		1				1
60	Khaled Shuja Al-Otaibi (Ph.D.)		2				2
61	Khalid Mathkour Al-Mathkour (Ph.D.)	2	10				12
62	Khalid S. Al Otaibi (Ph.D.)	1					1
63	Mishaal Al Enazi (Ph.D.)		1				1
64	Mohammed Abdul Gaffar Al-Sharif (Sheikh)	1					1
65	Mohammed Abdul Hakim Zoeir (Ph.D.)	1				4	5
66	Mohammed Abdul Razzaq Al Siddiq (Sheikh)					6	6
67	Mohammed Abdulrazaq Al-Tabtabae (Ph.D.)	2	6				8
68	Mohammed Ali El Gari (Ph.D.)	7	1	1	9	6	24
69	Mohammed Anas Zarka (Ph.D.)		1				1
70	Mohammed Arbouna (Ph.D.)	1					1
71	Mohammed bin Saud Al-Osaimi (Ph.D.)				1		1
72	Mohammed Damas Al-Ghamdi (Ph.D.)	1					1
73	Mohammed Daud Bakar (Ph.D.)	3				3	6
74	Mohammed Fawzi Faidhalla (Ph.D.)		7				7
75	Mohammed Imran Usmani (Ph.D.)	1				1	2
76	Mohammed Jaffar Al Jiffari (Sheikh)	1					1
77	Mohammed Taqi Usmani (Judge)	1			1	1	3
78	Naif Mohammad Al- Ajami (Ph.D.)		1				1

No.	Shari'a Scholar	Bahrain	Kuwait	Qatar	KSA	UAE	Total
	Appendix (2): Continued						
79	Nayef M. Al Ajmi (Ph.D.)	1					1
80	Nazih Hammad (Ph.D.)	1					1
81	Nizam Yaqubi (Sheikh)	18	5			7	30
82	Omar Abdul Aziz (Ph.D.)			3			3
83	Osaid Mohammed Adeeb Kailani (Sheikh)					1	1
84	Osam Qyis Al-Deraiay			1			1
85	Osama Mohamed Bahar (Sheikh)	1	1				2
86	Riyad Al-Khulifi (Ph.D.)		1				1
87	Saad bin Mohammed (Sheikh)				1		1
88	Saleh Al Meziad (Ph.D.)				1		1
89	Saud Abdullah Al-Funaisan (Ph.D.)	1					1
90	Saud Mohammed Al-Rabea (Ph.D.)		1				1
91	Siddiq Mohammed Al- Amin Al Dareer (Ph.D.)				2		2
92	Sultan Al Hashemy (Ph.D.)			1			1
93	Waleed Al Mahmoud (Sheikh)	1					1
94	Walid Bin Hady (Sheikh)			2			2
95	Walid Hadi (Sheikh)	1		1			2
96	Yousef Hassan Al-Sharrah (Sheikh)		1				1
97	Yousif bin Abdullah Al-Shubaily (Ph.D.)	1			1		2
98	Yousuf Al Qaradawi (Sheikh)			3			3
99	Yousuf Al Sharah (Ph.D.)		1				1
100	Yusuf Talal DeLorenzo		2			2	4
	Total	99	115	28	56	66	364

Sources: Zawya (2009); CIBAFI (2009); IFIS 2009; Arab Banking and Finance Directory (2009-10)