

EXAMINING CORPORATE GOVERNANCE  
DISCLOSURE PRACTICES  
OF ISLAMIC FINANCIAL INSTITUTIONS IN  
MALAYSIA

BY

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## ABSTRACT

This study documents the quality of corporate governance (CG) in Islamic Financial Institutions (IFIs) operating in Malaysia. Following the consideration of the stewardship approach, it is assumed that CG disclosure can be considered as a direct expression of IFIs to gain trust from stakeholders. This study constructs a comprehensive CG disclosure index reflecting the specificities of institutions subjected to *Shariah*-based operations in particular. This study bases the index on a number of widely recognised sources mentioned in the debates concerning governance in IFIs. Additionally, the study sets out to identify any significant differences in compliance between locally and foreign owned IFIs. Using the most recently publicly available data for 2009, which was hand-collected, the current study calculates an overall CG disclosure score for IFIs in Malaysia. The study identifies some weak areas of general governance related information (GCGi), such as internal audit and control and non-adherence to guidelines. For specific governance related information (SCGi), areas, such as *Shariah* compliance and customers/investment account holders (IAHs), could be enhanced to portray the capability of IFIs as trustworthy banks that can be relied upon by their stakeholders. In the future, the IFIs may also consider setting up a governance committee (GC), as this committee is currently not a common practice for any of the IFIs in Malaysia. On comparing the score, this study finds evidence that some CG practices are better/ (worse) in locally owned IFIs (Foreign owned IFIs). However, the difference in the quality of governance across this institutional ownership structure is not statistically significant. The finding of this study reveals that CG disclosure in IFIs is currently prioritised to focus more on general kinds of governance information, such as the Risk management committee and Nominating committee.