International Journal of Humanities and Social Sciences (IJHSS)
ISSN(P): 2319-393X; ISSN(E): 2319-3948
Conference Edition, Apr 2014, 61-74

International Academy of Science, Engineering and Technology
Connecting Researchers; Nurturing Innovations

CAN EFFECTIVE CORPORATE GOVERNANCE OF ISLAMIC BANKS ENHANCE FINANCIAL INCLUSION IN THE SULTANATE OF OMAN?

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ABSTRACT

Oman has just recently opened the Islamic Banking sector for its customers. This research paper reviews the possibilities of increasing the financial inclusion in Oman by offering products that meet the religious requirements of the population. Several existing studies in corporate governance support the view that it strengthens the firm performance of both financial and non-financial firms. When the corporate governance mechanisms are applied in accordance with the regulatory bodies' recommendations, the stakeholders have more faith in such firms. Financial inclusion plays an important role in making financial products available and accessible to the people. Corporate governance supports the improvement of a country's financial inclusion. The objective of this study is to explore how Oman's Islamic Banking Regulatory Framework can contribute towards enhancing the financial inclusion. This paper also aims to provide the foundations of future empirical studies that measure the association of corporate governance with financial inclusion and give directions to the regulatory bodies for continuously improving practices.

KEYWORDS: Corporate Governance, Financial Inclusion, Firm Performance, Islamic Banking

INTRODUCTION

The Islamic financial industry made a formal appearance in 1970s and with its phenomenal growth plays a prominent role in developing the financial stability of an economy today. According to Ernst and Young (2013) the Islamic Banking assets available to the commercial banks were expected to cross $1.7trillion in 2013 which is an annual growth of 17.6 percent for the last four years. Islamic banking provides an economy with features of halal transactions, inclusive growth and product differentiation through responsible banking that attract the predominantly Muslim based countries. Though Islamic banking growth has been remarkable, it is also facing challenges in the emerging markets such as barriers to entry, across border optimization of operations, the appropriate differentiation and the continuous need for the right skills and funding from the global pools of capital and talent.

Ernst and Young (2013) report that about two thirds of the customers are residing in Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT). QISMUT along with Bahrain will create the next wave of future internationalization of Islamic Banking through their large pool of financial and intellectual capital. Sultanate of Oman has been a new entrant and also the last one from the GCC region to offer Islamic banks and windows.

According to AI (2010), Islamic banks need to change their strategy in maintaining the competitive edge past global financial crisis by offering Islamized corporate governance that preserve and enhance depositors and an investor's capital. The Islamic Banks cannot continue to operate under the conventional models of corporate governance. From an Islamic perspective, corporate governance is the abiding of the Islamic Financial Institutions (IFI) with the Islamic law or Shari'a. The Shari'a governance guidelines are issued by autonomous bodies such as The Accounting and Auditing

Organization for Islamic Financial Institutions (AAOIFI) in Bahrain and Islamic Financial Services Board (IFSB) in Malaysia.

Corporate governance of banks is different than that of non- financial firms due to the opacity and heavy regulations in the former. Several existing studies have supported the view that effective corporate governance mechanisms enhance the firm performance (Rosenstein and Wyatt, 1990; Weisbach, 1988). These studies assist in the continuous evolvement of regulations which in turn smoothen the operations of the IFI. Corporate governance is also viewed to encourage financial inclusion as stakeholders have more faith in the institutions. Financial inclusion works with the objective of providing easy access to finance at an affordable cost. Financial inclusion is important for an economy as it encourages financial development and intimidation which in turn leads to economic growth an development (Mohieldin et. al., 2012). It is being proposed by Mohieldin et al. (2012), that if policy makers in Islamic countries would like encourage and promote financial inclusion it is important to provide Islamic instruments.

Thus, to have economic development it is important that appropriate corporate governance mechanisms are in place with products that support financial inclusion. For Islamic based economies, Islamic banking products can support the objective of financial inclusion. Oman which has recently started its Islamic Banking operations is expected to encourage financial inclusion which would lead to an overall growth of its economy.

OBJECTIVES OF THE STUDY

Islamic finance is faced with the uphill challenge of global financial meltdown and requires that they provide new outlook and fresh perspective on the economic problems (Ernst and Young, 2013). Once the priorities have been set towards knowledge, regulatory clarity and responsible innovation, it would boost the confidence in the banking sector. Central Bank of Oman has issued the Islamic Banking Regulatory Framework (IBRF) to provide a strict, robust and stakeholder protective corporate governance guidelines which tend to learn from the mistakes around the world. This study has two important objectives:

- To review the importance of Islamic corporate governance in the development of Oman’s financial inclusion.
- To investigate how the IBRF regulations would be vital to support the Islamic Banking from a stakeholder perspective.

LITERATURE REVIEW

This section presents the literature review of existing studies on different models of corporate governance; corporate and firm performance; financial inclusion; corporate governance and Islamic banks. An evaluation of the knowledge and concepts would assist in highlighting how Oman’s corporate governance for Islamic Banks has been framed.

Models of Corporate Governance for Conventional and Islamic Banks

Corporate Governance is the relationship around the shareholders, directorate and the top administration in deciding the bearing and execution of the organization. It incorporates the relationship around the numerous players included (the stakeholders) and the objectives for which the corporation is administered (Kim & Rasiah, 2010).

There are various theoretical viewpoints which are utilized as a part of illustrating the effect of corporate governance components on firms' financial position. The most vital theories are the Agency theory, Stakeholder theory and Resource dependency theory (Maher & Anderson, 1999). In addition, this paper also looks at the Tawhid epistemological model that deals with corporate governance of IFI (Choudury and Hoque, 2004)

Agency Theory

Agency theory is having its roots in economic theory, explained by Alchain and Demsetz (1972) and further developed by Jensen and Meckling (1976).

According to Habbash (2010), the agency theory is based on the principal agent relationships. With cutting edge enterprises the shareholders (principals) are broadly scattered and they are not regularly included in the regular operations and administration of their organizations rather they enlist an agent (manager) to deal with the organization for them (Habbash, 2010).

Agency theory identifies issues to exist in organizations when principals are completely dependent upon agents. One of the problems they face are that the agents are delegated to deal with the normal operations of the organization. The division of possession and regulating rights effects clashes of enthusiasm between agent and principal.

To tackle this issue or to adjust the clashing investment of managers and owners the organization acquires regulating expenses including incentives given to managers. The other problem highlighted through agency theory is the attitude of managers working for their personal interest and benefits rather than seeing the interests and benefits of the shareholders and increasing shareholder wealth. To deal with this issue there must be proper monitoring and control mechanisms on the managers so that they can work for shareholders' interest rather than only for their own interest.

According to Habbash (2010) to solve the agency problem and for the smooth running of the business, there must be a proper control on self-centered behaviors of management, regular inspecting of the financial reports of the organization and monitoring of the management activities. One of the assumptions of this agency theory is that corporate governance mechanisms will affect financial performance of the organizations.

An example of agency theory can be viewed from the perspective of Islamic Banks which offer unique kind of operations and contracts that widens the separation and control issues. The investment account holders (IAH) and the banks management enter into contracts whereby the IAH are not involved in the decision making and the banks management participate in the profit sharing but not in the losses. Such terms and conditions contribute to excarbate the agency-related issues (Karim, 2001).

Stakeholders Theory

The second set of powerful thoughts regarding governance and performance that we need to present here is a stakeholder theory. These thoughts were initially created by Ed Freeman in the 1980s.

Stakeholder theory challenges the assumptions of agency theory about the power of shareholder interests. Rather, it contends that an organization ought to be overseen in light of a legitimate concern for all its stakeholders. This diversion incorporates not only shareholders interest but also the direct and indirect interest of other stakeholders.

The representative is clearly a key stakeholder and there have been long-running contentions amongst governance academicians, for example, studies suggest that employees are risk takers as much as shareholders in an organization.

A worker's ventures in firm-particular aptitudes imply that they excessively should have a voice in the governance of the organization. Anyhow stakeholder theory might likewise demand that different groups -suppliers and clients - have a strong direct interest in organization performance while nearby groups, the environment as well as the society will have a valid indirect interest.

The stakeholder theory has not been subjected to much experimental study. The challenge of stakeholder theory is the adjustment of stakeholders conflicting interest due to different needs and requests. It is not conceivable to treat all stakeholders equally (Habbash, 2010). Additionally, it is not viable for all stakeholders to be represented in corporate administration proposals as this may undermine the welfare of the organization (Habbash, 2010). An additional concern with stakeholder model is the utilization of "stakeholder" motivations by administrators or executives to support poor operational execution (Maher & Andersson, 1999).

Corporate governance of IFI operates with the premise of equitable treatment of all stakeholders irrespective of their equity holding positions (Chapra, and Ahmed, 2002). Iqbal and Mirakhor (2001) suggest that corporate governance in an Islamic economy operates on the stakeholder centric model. They supported this justification with two Shari'a rulings; 1) principle of property rights and; 2) commitment to explicit and implicit contractual agreements that govern the economic and social behavior of individuals, society and state.

Resource Dependency Theory

Last theory of corporate governance which is associated with organizational resources is Resource Dependency Theory. Board of directors play a very important role and are responsible for providing the resources to the firm whenever needed. (Abdullah and Valentine, 2009). As stated by this theory the essential capacity of the top managerial staff is to give assets to the firm. Directors are seen as an essential asset to the firm. Now the point is when the directors are acknowledged as asset suppliers, different extents of directors differences obviously get critical, for example, sex, experience, capability and the like. As stated by Abdullah and Valentine (2009, executives bring assets to the firm,

This theory proposes that the board of directors could be utilized as a system to join with the outside environment so as to back the administration in the accomplishment of hierarchical objectives (Wang, 2009). It also concentrates on the report and guiding part of directors in an organization's management.

Tawhid Epistemology Model

According to Chodhury (1989), there are four main principles that govern the Islamic corporate governance: 1) The extension of Tawhid unity of knowledge via the IIE process, 2) principles of justice, 3) principle of productive engagement of resources in social and; 4) principle of economic activities and recursive intention. These principles help in the evolution of organization and institutions of an economy to move from their imperfections a true Islamic political economy. This model suggests that the functional roles of the organization work through the Islamic Shari'a rulings.

Overall, these theories are suitable for bearing the competence and success of different functions of the corporate governance.

Corporate Governance and Firm Performance

Understanding the relationship between corporate governance and firm performance is of paramount importance. The awareness of this relationship facilitates and drives the policy making by regulatory bodies and at the same time aids in formulating corporate management policies. Before we get into the dynamics of the relationship, it would be worth dwelling on concepts of firm Performance and its measurement. This would then enable a wider perspective in understanding the relationship between the two.

The firm performance measurement has always been a subject of research, Neely (1999), pointed that in a period of two years since 1994, more than three thousand five hundred articles were published on performance measurement, has been credited with coining the phrase the performance measurement revolution. The traditional approach of firm performance measurement included primarily: Return on Asset (ROA) and Equity (ROE); Earnings per share and Profit margin. However, it was debated that the traditional approach lacked alignment between the measurement parameters and strategy. The need to include non-financial and intangible factors namely quality, customer satisfaction and employees morale was stressed upon. Consequently, the contemporary approach was born to measure firm performance in the economy susceptible to dynamism and driven by focus on markets in a globalized environment. (Kaplan and Norton, 1992, 1996; Eccles, 1991; Ittner and Larcker, 1998; 2003; Neely, 1999). Today, there is a general consensus that the old financial measures are still valid and relevant (Yip et al., 2009), but these need to be balanced with more contemporary, intangible and externally oriented measures.

Having known the various performance measurement parameters understanding of the determiners would further enlighten the reader. This is in particular very relevant when the relation between the firm performance and corporate governance is to be realized. Hansen and Birger (1989) presented a model and matrix of the various determiners. Broadly three key factors have been identified:

- Organizational Factors (Structure, System, Size and History)
- Environmental Factors (Sociological, Political, Economic and Technological)
- People Factors (Skills, Personality and Age)

The above factors lead to the development of organizational climate which in turn drives firm performance.

According to Cadbury (1992), corporate governance is the mechanism used to discipline organizations. Morin and Jarrell (2001) argue that corporate governance can be considered as an effective framework that not only controls it also safeguards the interest of the relevant players in the market. The players of the corporate governance mechanism include managers, employees, customers, shareholders, executive management, suppliers and the board of directors. The role of all the players is critical in improving the value of a firm. Good corporate governance is focused on the protection of the rights of shareholders and plays an important role in the development of capital markets by protecting their interests (Kahan and Rock, 2003).

According to Black (2001), Klapper and Love (2003), Gompers et al. (2003) and others, corporate governance plays an important role in improving the performance of a firm and there is a direct relationship between the two in both developing and developed financial markets. It is also a researched fact that that owing to various factors between the developing and developed markets namely socio-economic and political one can get answers for the apparent differences. (Heinrich, 2002; Ahunwan, 2003).

Coles et. al (2001) argued that the prime focus of corporate governance has been on designing mechanisms to motivate managers in order to pick the best option for firm which will help in increasing the firm performance. He then went on to classify these corporate governance mechanisms into two broad heads. First one focusing on leadership and board structure and the second one with CEO compensation and ownership structure. Baysinger and Butler (1985) concluded that companies dominated by non-executive directors had a better performance than companies dominated by executive directors. Coles et. Al (2001) studied 144 large US corporations, They concluded that there is a positive relationship between Economic Value Added-EVA (an accounting measure of performance) to a combined leadership structure of companies.

Institutional investors playing the roles of corporate monitors have attracted a significant research. (Shleifer and Vishny, 1986) concluded that directing the management by institutional large shareholders is more evident as compared to the other directors. Driving the management focus towards firm performance has also been researched and there are ample evidences suggesting the role of large shareholders. (Nesbitt, 1994). It is also interesting to note that some other researches and studies have found no impact of institutional owners on management performance (Agarwaal & Knoeber, 1996; Facio and Lasfer, 2000).

Board composition and its impact on its efficiency and effectiveness is another area which been studied by many researchers. Jensen (1993), concluded that an increase in number of board directors leads to a detrimental impact and lowers the efficiency of the board. Also the optimal board size is put at seven or eight members. Smaller board is associated with better communication and effective decision making that has consensus. Eisenberg et al. (1998) found a strong negative relationship between board size and firm performance for a sample of small and midsize Finnish firms.

Studies analyzing the impact of audit committees on firm performance have had various results and there is no major observation in the regard which can be taken as a standalone theory. Chan and Li (2008) concluded positive synergy between firm performance and an independent audit committee. Ilona (2008) too showed a similar result but the firm performance was measured by ROA. Klein (1998) and Hsu, (2007) found no significant association between independent audit committees and firm performance. Hsu (2007) suggests, the process of monitoring senior management’s role in particular to risk identification and assessment is effective due to the audit committee and its closer supervision ensuring the optimal frequency of the audit committee meetings.

The above studies view the association of corporate governance with firm performance from a quantitative perspective using accounting or market based measures. Financial inclusion is an area that needs to be viewed from a qualitative perspective and therefore studies measuring relationship between corporate governance and financial inclusion can also be undertaken.

Corporate Governance and Financial Inclusion

Globally, it is estimated that two and half billion people are not accessing the financial services or they are unbanked (Chaia et al., 2009). Even the basic financial products as bank accounts and loans at low costs are not availed by the low-income category of people which imposes a high cost to the people. Safe and ease access to credit and financial services has to reach to the poor and vulnerable sections of the society to wipe out the poverty and reduce the income inequalities, which in turn contribute to the development of the economy (Chaia et al., 2009). According to the Global Findex data, at the country level the discrepancies exist in the usage of financial services between high-income and developing countries, added to the findings of previous studies that show lesser use of formal financial services in developing countries (Beck, et. al., 2007; Cull et. al., 2013). For illustration, the share of banked adults in high-income countries is more than twice, in developing countries. The developing and emerging economies work together and formed the Alliance for Financial Inclusion (AFI), a network of financial inclusion policymakers, to increase access to appropriate financial services for the poor. Moreover, the paper finds that comparing to the traditional financial institutions the post offices are more likely to provide accounts to individuals from financially vulnerable groups, such as the poor, less educated, and those out of the labor force (Anson et. al., 2013).

According to the findings of Demirguc-Kunt and Klapper (2013) the most common reason for not having a formal account cited by 65 percent of non-account-holders are lack of enough money to use. Other common reasons reported for not having an account are that banks or accounts are too expensive (cited by 25 percent of adults without a formal account) and that banks are too far away (cited by 20 percent). Distrust in formal financial institutions is also one of the barriers to wider financial inclusion, and it is difficult to address in the short term. Adults (13 per cent) without a formal account quoted lack of trust in banks as a reason for not owning an account. This suspicion can arise from cultural norms, discernment against certain population groups, bank failures or government expropriation of banks, economic crises and uncertainty. 38 per cent of unbanked people in Russia cited that lack of trust in banks as a reason for not having an account—approximately three times the share in developing countries on average. Finally, only 5 percent of unbanked respondents cited religious reasons for not having a formal account, this proportion is higher in some Middle Eastern countries such as the West Bank and Gaza and in some South Asian countries such as Pakistan. Developing financial products compatible with religious beliefs (so-called Islamic finance) could potentially upsurge account penetration in these regions.

To promote the financial inclusion some of the policies targeted like: 1. Encouraging banks to offer basic or low fee account; 2. Exempting the depositors from the onerous documentation requirements; 3. Allowing correspondent banking, and using bank accounts to make government payments effective for unbanked people (Allen, et. al., 2012). Some evidence from field experiments finds that an upsurge in access to micro credit shows additional modest effects in promoting investment and entrepreneurship, common for households with existing businesses ((Banerjee et. al., 2013). Evidence from field experiments highlights that people may have reduced vulnerability to illness and other unexpected events with access to savings accounts or simple, informal savings technologies are more likely to proliferate consumption, productivity and income, and investment in preventive health (Dupas and Jonathan, 2009). As noted, for succeeding and maintaining public trust and confidence in the banking system the effective governance structures are vital, which are dire to the proper functioning of the banking sector and an economy as a whole. While banks are similar to nonfinancial/industrial firms as they all have stockholders, debt holders, board of directors, and competitors, banks have unique governance structures that are different from industrial firms (Adams & Mehran, 2003).

First, compared to the non-financial firms the banks are more complex and opaque (Levine, 2004). Although the information, irregularities outbreak all sectors of an economy, Furfine (2001) finds evidence signifying that in the banking sector the information irregularities are more noticeable. According to the findings of Leventis et al. (2013), the existing regulatory framework by focusing on accounting conservatism as a complement to corporate governance in alleviating the opaqueness and intense information irregularities that outbreak banks. Large banks (in terms of total assets) are associated significantly with effective board, audit, and executive and director compensation and ownership governance structures.

From the banking industry perspective and in line with the understanding of banking supervisors, as embodied in the Basel Committee on Banking Supervision’s (2006) guidance, which states a broader definition of corporate governance, includes the manner in which the business and affairs of banks are governed by the board of directors and senior management which also includes how the: (1) Corporate and strategic objectives are set; (2) Day to day basis of banking business is operated; (3)The recognized stakeholders (including, inter alia, supervisors, governments and depositors) interest are taken in to account by meeting the obligation of accountability to their shareholders; (4) Banks operate in a safe and sound manner in compliance with applicable laws and regulations by aligning the corporate behavior and activities; and (5)The depositors interest are protected.

In Oman, it has been reported that about 74 per cent of the adults have accounts. About 23 percent of the adults use a formal account for savings. There is still a huge scope of the country to improve its financial inclusion (Demirguc-Kunt, and Klapper, L., 2012). The executive president of Central Bank of Oman advised in 2012 that with the introduction of Islamic Banking in Oman, the financial inclusion will be augmented, complement the conventional banking and promote growth in the economy (Oxford Business Group, 2013).

Corporate Governance and Islamic Banks

Islamic Banks operates on the principles of profit and loss sharing, no interest charging, dealing with only halal products and creating a link with the real sectors of the economy. The importance of corporate governance for IFI's is well highlighted by the statistics provided by El-Gamal (2005). About 20 percent of the world population welfare is affected by the activities of IFI. The Islamic economy runs on the objective of creating a just, fair, honest and balanced society. According to Ahmad (2000), Islamic businesses are founded on the principles of ethical norms and social obligations, and conducts its activities on the rulings of Islamic law (Shari'a). Islamic law prohibits Islamic Banks from undertaking operations that deal with riba (interest), gharar (speculations) and trading of money. To ensure that Islamic Banks are complying with the Islamic law, a Sharia Supervisory Board (SSB) should exist. The key challenge that faces the IFI are giving confidence to the stakeholders that they are efficient, stable and trustworthy providers of financial services (Bhatti and Bhatti, 2009).

The number of stakeholders having expectations with the Islamic banks are more than that of the conventional banks, thus even the corporate governance differs between the institutions (Adams and Mehran, 2003). The governance structure of Islamic banks gives special emphasis to the board of directors and Shari'a Supervisory Board (SSB). The SSB is a unique feature of the Islamic banks that are responsible to ensure that operations are in compliance with Shari'a law. The SSB comprise of a number of jurist that clarify any Shari'a related queries and are driven by the objective of confirming IFI's activities in accordance with Shari'a (Ghayad, 2008). ALGAOUD and Lewis (1999) report SSB as a hired team, which are in nature an internal control body of the organization that enhance banks credibility in the purview of customers and boost its Islamic credentials.

AAOIFI has issued seven governance standards in which it has specified the appointment procedure and composition of SSB. The authority of appointing SSB members is entrusted with shareholders at the annual general meeting. The standards set three as a minimum number of SSB members.

These regulations are directed towards a Shari'a governance framework for the Islamic Banks. Under the umbrella of this framework, the Shari'a supervision derives its powers from the religious, social, economic, legal and governance resources. The religious perspective is derived from the ability of the Shari'a scholars knowledge, understanding, interpretation and application of Shari'a principles. The social perspective enhances stakeholder assurance of the transactions and activities of IFI's. The economic power is determined by the association of profitability of the IFI's with the performance of Shari'a scholars. The legal powers of Shari'a are consequent to the regulations placed for the country. The governance perspective is highlighted from the organizational structure that places the SSB as a supreme power to oversee the activities of the IFI's (Garas, and Pierce, 2010).

Oman's Corporate Governance Framework for Islamic Banks

Oman's Royal Decree 69/2012, amended the Banking Law 2000 and legally authorized Islamic Banking in December 2012. Currently Oman has two full fledged Islamic Banks and six Islamic banking windows. The Central Bank of Oman issued the Islamic Banking Regulatory Framework (IBRF) to cover aspects of the Islamic Banks under the categories of Licensing requirement, general obligations and governance, accounting standards and auditor reports, the power of supervision and control, the capital adequacy and different types of risks. The IBRF makes references and encourages adoption of the guidelines issued by the IFSB but doesn't make it mandatory (Mcmillen, 2012)

The IBRF provides guidelines for Shari'a governance to differentiate Islamic banks and windows from the conventional counterparts. The IBRF specifies the elements of Shari'a governance as: Shari'a Supervisory Board (SSB) of the licensee, Internal Shari'a Reviewer, Shari'a Compliance Unit and Shari'a Audit Unit. The Board of Directors is entrusted with the ultimate responsibility for the creation and maintenance of a robust Shari'a Governance Framework. The Board works in conjunction with the SSB for the approval of policies and procedures related to Shari'a matters. The operations on how the Islamic Banking window is to function is clearly specified.

Composition and Knowledge: An important aspect of the corporate governance mechanism is the composition of SSB. The IBRF clearly specifies every licensee to establish an SSB. Smaller sized and less complexity institutions can outsource of SSB. SSB should be an independent body Shari'a Scholars specialized in Islamic Commercial jurisprudence and also include one or more non-voting member with the expertise of Islamic Banking. There should be a minimum of three members.

Roles and Responsibilities: SSB is given the ultimate responsibility for all Shari'a related matters, whereas the Board has the responsibility of overall governance. The Board will rely on the SSB for all Shari'a related matters. The responsibilities of the SSB are specified, but are not limited to: advising the board and management on daily matters; reviewing and approving policies for Shari'a compliance; conducting Shari'a checks post product approval; reviewing and approval of work carried out by Shari'a compliance; provide written Shari'a opinions; submission of report to the Board for publication as part of the annual report.

'***Fit and Proper*' Criteria:** SSB are expected to be holders of academic qualification in the field of Shari'a with a minimum of bachelor degree. They should have an accumulated experience of 10 years. The members will be appointed for a term of 3 years that can be renewed for another 3 years. The SSB member can serve a maximum of two consecutive terms in an institution.

Performance Assessment: The IBRF also gives a sample for the performance assessment of SSB to ensure accountability.

The IBRF guidelines are derived from the experiences of the standards set by AAOIFI and IFSB. It aims to overcome the challenges posed to the corporate governance of Islamic Banks with the accumulated experience around the world. The Shari'a governance

FINDINGS AND CONCLUSIONS

Oman is currently at its preliminary and testing stage of the Shari'a corporate governance framework for the Islamic Banks under operations. It would be too early to comment on the implementation and success of the relationship between the corporate governance and firm performance of Islamic Banks. The IBRF has ensured that the corporate governance mechanisms are more strictly laid down for the Banks to follow in order to ensure that the shortcomings that have been noticed in the corporate governance practices of Islamic Banks more recently are being overcome. The IBRF mentions a stricter requirement on the qualifications which are not found in the AAOIFI and IFSB. Only two consecutive terms can be served by SSB members which highlights the importance played to minimizing any conflict of interest. It has been mostly found that the SSB has not been subject to performance assessment under many regulations around the worlds. Oman has even guided its banks towards the type of performance assessment expected.

Existing studies have shown enough evidence on the relationship between corporate governance and firm performance. These results have been mixed and would vary across different time periods, countries and economic conditions. This research suggest in light of stakeholder's theory, firm performance is also an important element that can influence financial inclusion. Similarly corporate governance mechanisms impact on financial inclusion would depend on how effectively they are implemented and continuously monitored for stakeholder confidence.

The IBRF clarity encourages in the belief that the corporate governance of the Islamic banks would be strong and the introduction of Islamic Banking in Oman is surely going to give a boost to the financial inclusion of the economy due to its Muslim based economy. These banks are intended to serve the needs of a customer with compliance to Shari'a.

This paper contributes towards a better understanding of Oman's corporate governance guidelines in line with the existing studies around the world. Future studies can be undertaken to find the relationship between corporate governance mechanisms and firm performance of Oman's Islamic Banks. Regulators can be encouraged to take fresh statistics on the impact of corporate governance on financial inclusion for Oman's economy. The IBRF is a source of proactive regulation which supports, controls and supervises the Islamic Banks to boost the stakeholder confidence.

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