

CORPORATE GOVERNANCE REFORMS IN KUWAITI IFIS: A COMPARATIVE STUDY WITH GLOBAL BEST PRACTICES

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Abstract	<p><i>Globally, shariah-compliant finance has become more popular, with Kuwait acting as an important centre for Islamic financial institutions (IFIs). This study aims to investigate Kuwait's Shariah corporate governance reform, examining its distinctive features and contrasting them with international practices proposed by the Accounting and Auditing Organisation for Islamic Financial Institutions—Islamic Finance Standard-Setting Bodies (AAOIFI IFSB). This study uses comparative analysis to shed light on the unique aspects of the reformed Central Bank of Kuwait (CBK) Shariah corporate governance and compare it with the reformed AAOIFI IFSB Shariah corporate governance standards. The research examines the regulatory framework, roles, and duties of significant stakeholders, including the Board of Directors, Senior Management, Shariah Supervisory Boards, and Islamic Supervisory Auditors. The study also looks at Kuwait's difficulties in bringing its Shariah corporate governance up to par with international standards, including problems with concentrated ownership, passive shareholders, and the requirement for regulatory reforms. The results of the research indicate that there are many discrepancies in Shariah corporate governance practices between AAOIFI IFSB and CBK. Moreover, the results show that Kuwait suffers difficulties implementing international corporate governance norms for many reasons, such as centralised ownership by governmental agencies and wealthy individuals, as well as prohibitions on foreign ownership. This research intends to offer useful insights into the potential and challenges of Kuwait's road towards successful Shariah corporate governance reform by evaluating these dynamics and making comparisons with global best practices. In the end, the research will add to the continuing discussion on corporate governance in Islamic financial institutions, promoting transparency, accountability, and the long-term development of Kuwait's financial industry.</i></p> <p>Keywords: <i>Corporate, Shariah, Governance, IFIs, Kuwait.</i></p>
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INTRODUCTION

Corporate governance is gaining a lot of traction over the globe recently (Albuquerque et al., 2019), especially in Arab nations where it has been shown to be a factor in attracting in foreign investment (Alfrah & Almutawa, 2017). Corporate governance is the underlying structure that directs, controls, and manages enterprises. With the main objective of maintaining accountability, transparency, and justice in decision-making and operations, it includes a collection of principles, policies, and processes that direct interactions and duties

among diverse stakeholders inside an organization (Azim, 2012). After the 2008 global financial crisis and the massive financial losses (Farooq et al., 2023), many countries reformed the corporate governance structures (Jan et al., 2023). In Kuwait, corporate governance reform for IFIs happened in 2016 in which many changes occurred in the structure of the board of directors, executive management and shariah supervisory board. The primary goal of the reforms is to eliminate the obstacles that keep businesses from implementing solid corporate governance procedures that can boost long-term shareholder value by enhancing board supervision and corporate transparency (Fauver et al., 2017). The two immediate pressures that drive changes in CG are as follows. The first is Kuwait's ambition to diversify its investments by 2035, and the second is the GCC's expanding competitiveness for foreign investment growth (Agyemang et al., 2019). It is worth noting that many studies examined the relationship between Shariah corporate governance, in Kuwait, and other aspects such as the corporate risk disclosure, foreign ownership and management decision making; however, disregarded the importance of comparing the Shariah corporate governance in Kuwaiti IFIs and the global best practices and its implications and the lessons that might be learned from it.

Therefore, this research attempts to answer the following two questions: (1) what are the major differences between the AAOIFI IFSB and the Kuwaiti IFIs Shariah corporate governance codes and guidelines? (2) what are the challenges facing by Kuwait when applying the global Shariah corporate governance codes and guidelines? Hence, by answering the aforementioned questions, the research will contribute to the body of knowledge of the Islamic finance in Kuwait in many ways: (1) by examining the Shariah corporate governance reform in Kuwait and compare it to the global codes and guidelines, (2) by examining the difficulties of applying the global Shariah corporate governance codes and guidelines in Kuwaiti IFIs, (3) by suggesting some policies that may benefit the Shariah corporate governance in Kuwait derived from the global codes and guidelines. This research is divided into four sections. Following this Introduction, Section 2 consists of the literature review, section 3 will discuss the finding and section 4 will be the conclusion.

METHODOLOGY

This research adopts interpretivism philosophy which is suitable to address the research questions. Moreover, the developed theory is deductive approach. Hence, this study follows the qualitative methodology. In addition, the research used previous studies that are related to carrying out content analysis to address the research questions.

For the comparative objective between the shariah governance in Kuwaiti IFIs and AAOIFI IFSB, the methodology used for this research includes a thorough analysis of Kuwait's Shariah governance standards, which were first released in 2013 and then revised in 2016. Key elements included in the research are the Board of Directors, Senior Management, Internal and External Shariah Audits, and the Shariah Supervisory Board. The study uses a two-step methodology. Official documents and regulatory updates are analysed in order to examine how the rules within Kuwaiti regulations have evolved over time. The 2016 revised guidelines are then compared methodically to the international requirements for Islamic financial institutions stated by AAOIFI and IFSB. This strategy provides for a comprehensive knowledge of the precise changes included in the reform, stressing areas of agreement or divergence with the worldwide standards. In addition, to address the second question, the researcher used the previous studies that are related to challenges of applying the global practices in the Kuwaiti IFIs.

LITERATURE REVIEW

INTRODUCTION TO GOVERNANCE

1. Overview of Corporate Governance

Corporate governance refers to the way a firm is managed and controlled (Cadbury, 1992). It gives a firm a way to use policies and procedures to align the interests of different stakeholders as it pursues its diverse goals (Shleifer & Vishny, 1997). In addition, corporate governance consists of some important mechanisms such as board responsibility, board composition, risk management, internal control, shareholder engagement, and information disclosure (Shahar et al., 2020).

Corporate governance has become increasingly difficult to be defined (Connelly, 2017). In 2001, the OECD defined corporate governance as “the private and public institutions, including laws, regulations, and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other” (Oman, 2001). Subsequently, several scholars make an effort to describe corporate governance from various points of view. For instance, Akinkoye and Olasanmi (2014) defined corporate governance as “a process through which shareholders induce management to act in their interest, providing a degree of confidence that is necessary for capital markets to function effectively”. Moreover, Elghuweel et al. (2017) described the corporate governance as committee intends to enhance governance practices by precisely outlining governance arrangements and making sure the governance framework implemented by the firm is adhered to and updated. Additionally, the Central Bank of Kuwait (2013) defined corporate governance as “the way in which the affairs and business of companies are organized by their boards of directors and the executive management, which determines the proper methods in setting the goals and strategies of companies and their daily operations, and ensuring the achievement of the accountability principle before shareholders, taking into account the rights of the relevant parties, the rules and instructions issued by the supervisory authority, the protection of rights of shareholders, creditors and other stakeholders and the necessity to develop strong risk management systems”.

Although there are many definitions for corporate governance, but the commonalities among these various definitions of corporate governance include its description as a framework for organizing and regulating corporate affairs, acknowledging the significance of the roles and relationships between corporate insiders and resource providers, emphasizing accountability to shareholders and stakeholders, acknowledging the role of laws, regulations, and accepted business practices, highlighting the protection of various parties' rights, and aligning the interests of shareholders and stakeholders. Regardless of the context or viewpoint from which it is defined, these common characteristics represent the fundamental values and goals that underpin corporate governance.

2. Overview of Shariah Governance

On the other side, under the Islamic principles, corporate governance places a strong emphasis on balancing personal and societal objectives by respecting the distributive justice concept (Choudury & Hoque, 2004; Shahar et al., 2020). Moreover, Islamic financial institutions have a different corporate governance structure than their conventional counterparts. Shariah Supervisory Boards (SSBs), a special governance mechanism used by Islamic institutions, act as a set of internal rules. The inclusion of SSB in the governance framework provides distinct advantages over the old system; when it is combined with the conventional governance, it becomes Islamic corporate governance (ICG) (Jan et al., 2021). The implementation of ICG assures the leadership of Islamic financial institutions is secure and well-managed, as it forbids *riba* (interest), *gharar* (uncertainty), and *maisir*

(speculation) (Nomran & Haron, 2020; Jan et al., 2023). ICG serves as a barrier against all types of deceptive, immoral, and Shariah-incompatible behaviour when the management is under continual pressure to accomplish a certain objective. ICG encourages justice, morality, openness, responsibility, and accountability among all parties involved. Conflicts in ICG are settled thanks to the Shuratic system's engaging character (Lassoued, 2018).

In 2003, M. A. Qatan firstly used the term Shariah governance when he said: "the Shariah governance process is a unique building block of the Islamic financial architecture" (Fatmawati, 2022). The governance of Shariah compliance in IFIs was later described using this notion by standard-setting organizations like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Service Board (IFSB). For instance, IFSB (2009) defined Shariah governance as: "*a set of institutional and organizational arrangements through which IFIs ensure that there is effective independent oversight of Shariah compliance over the issuance of relevant Shariah pronouncements/resolutions and its dissemination, as well as an internal and annual Shariah compliance review/audit*". In addition, the Central Bank of Kuwait (2016) defined Shariah governance as "*It is the regulations through which any Islamic banking and financial institution endeavours for its activities to be exercised based on Islamic Shariah provisions and objectives, through the professional, effective and independent Shariah oversight*".

This definition demonstrates the existence of departments or divisions inside Islamic financial institutions (IFIs) or Islamic banks (IBs), which are in charge of making sure all goods and business operations within the firm are always in compliance with Shariah laws. The Shariah Supervisory Board (SSB) must collaborate and communicate with other IBs functions in order to carry out its duties successfully. Under shariah governance, IFIs are required to consider the interests of the entire society rather than concentrating on individuals and to share pertinent information with the community. IFIs are required to achieve this while making sure that corporate ethics and fundamental practices adhere to Shariah law. Shariah, for instance, forbids amassing riches by unethical means, as this might result in societal waste and unfairness (Bhatti & Bhatti, 2009).

3. The Importance of Corporate Governance

Corporate governance codes and regulations have been regarded as important tools in any firm over the last few decades (Laoworapong et al., 2018). In addition, corporate governance is important to provide the framework for the interaction between the board of directors, the shareholders, and the directors, and it clarifies each party's rights and duties to make the most of the possibilities and resources at hand (Goranova et al., 2017). Additionally, since the adoption of corporate governance promotes investor confidence because such regulations assure the protection of their rights, Effective corporate governance will draw in a wide range of investors to finance the expansion of projects (Takacs Haynes et al., 2017).

It is possible to evaluate the value of corporate governance at the business, shareholder, and societal levels. Effective corporate governance will protect everyone's rights, including voting rights and decision-making rights, according to the standpoint of shareholders (Buallay et al., 2017). Moreover, a comprehensive disclosure of the financial situation and economic performance is also ensured by good cooperative governance methods (Hamdan and Al-Sartawi, 2013). According to Francesca et al. (2016), well-governed companies have better stock values than poorly run companies at the level of the national economy. As long as there are properly run businesses in the economy, investors will undoubtedly have more confidence (Thenmozhi & Narayanan, 2016).

The financial crisis, which hit large shareholding firms and undermined confidence in their sound management, the integrity of their published financial results, the realities of these shareholding companies' stock prices at global stock markets, and the consequent negative implications, has made corporate governance a top concern for economic organizations in many different countries. The global financial crisis of 2008 highlighted the significance of corporate governance as it became clear from the crisis that poor corporate

governance, whether in the banking industry or any other business activities carried out by other companies, was one of the main contributing factors to the onset of the crisis (Commercial Bank of Kuwait, 2017).

4. Corporate Governance in Kuwait

Kuwait has a capital market that is developing and a generally open economy. The Gulf Cooperation Council (GCC) region's Kuwait Stock Exchange (KSE), which was founded in 1944, is regarded as having the oldest stock exchange. The Amiri Decree, which was enacted in August 1983 and revised by the Ministerial Decree No. 35 of 1983 and Amiri Decree No. 158 of 2005, established the KSE. This legislation created the KSE Committee, which oversees establishing the KSE's regulations, general plans, and policies, as well as operating the market. The KSE seeks to manage and integrate financial and economic operations as well as capital movements in Kuwait in partnership with the Ministry of Commerce and Industry (MCI) and the Central Bank of Kuwait (CBK) to promote national economic growth and financial stability. As a result, listed businesses on the KSE adhere to the rules issued by these earlier monitoring agencies (Alfraih & Almutawa, 2017).

In 2013, the Central Bank of Kuwait issued new instructions regarding "Rules & Standards of Corporate Governance in Kuwaiti Banks" to replace the instructions issued in April 2004, in order to keep up with international banking supervision systems aiming to improve corporate governance standards in banks (Commercial Bank of Kuwait, 2017). The extremely large block and pyramid shareholdings, exceptionally complicated corporate structures, lax disclosure and transparency procedures, and the concentration and interlocking of directorships were among these (Pillai & al-Malkawi, 2018; Alajmi & Worthington, 2023a).

The capital markets authority laws, which govern how market players behave, and corporate laws apply to businesses that are listed on the Kuwait Stock Exchange (KSE). All listed firms are required to update their internal policies and bylaws as a result of the numerous corporate governance articles and rules that these laws together enforced (Alajmi & Worthington, 2023). For boards, they comprise board size and composition, the necessity for independent directors, rules regulating executive and non-executive members, and the separation of the board chair from the chief executive officer. For audit committees, these factors included the number of meetings each month, the number of members who needed to be certified professionals, the identification of positions that could not meet with internal and external auditors, and a demand for independent members (Alajmi & Worthington, 2023b).

In order to achieve the goals of the governance of financial institutions, the Central Bank of Kuwait made a significant effort to improve the standards and practices of governance in the entities under its supervision. In 2013, the Central Bank of Kuwait formed the corporate governance codes and guidelines and placed special emphasis on nine pillars that will be briefly mentioned below (Central Bank of Kuwait, 2013):

4.1 Board of Directors

The board of directors is in charge of the company's overall management, which includes setting the company's strategic goals, risk management plans, and governance standards. It is also in charge of putting these plans into action, monitoring their safety during implementation, and supervising the executive management. Moreover, in accordance with the criteria of good governance standards, the board must have a suitable number and composition of board members to allow for the creation of an acceptable number of board committees. Furthermore, the board members must be trained for their posts and should thus continue to be competent. They should be capable of making informed and unbiased decisions regarding the business's activities and should grasp their position in corporate governance well. Finally, the chairman of the board should build a positive connection between the board and the firm's top management, as well as ensuring high levels of corporate governance standards within the corporation.

4.2 Corporate Values, Conflicts of Interest and Group Structure

The board must establish appropriate corporate governance procedures for its company. It will make sure that there are sufficient resources available to implement these practices and frequently assess them to achieve progress. The board must demonstrate good corporate governance to carry out its duties effectively and to provide a clear picture of the expectations and objectives of the bank. In addition, an official written conflict of interest policy must be included on the board. If there is a conflict between the executive management and the company or between the board members and the firm, it should be disclosed in the policy and defined. These guidelines must address every aspect of potential conflict of interest. Lastly, the parent company's board is ultimately responsible for ensuring that there is adequate corporate governance across the group in situations where it is permitted to establish a subsidiary company and in group structures. This includes making sure that there are governance policies and mechanisms that are suitable for the structure, operations, and risks of the group and its entities.

4.3 Executive Management

The board will supervise the Executive Management in making sure that the company's operations are in line with its corporate strategy, risk tolerance, and authorized policies. The executive management is in charge of delegating tasks to the staff, encouraging accountability and transparency, implementing the necessary risk management protocols to address the company's risks, and overseeing the company's operations in general, with a focus on compliance, risk management, autonomy, and task segregation.

4.4 Risk Management and Internal Controls

The business must maintain efficient internal controls and procedures for managing risks, ensuring that these tasks are autonomous, and that the chairman of the risk committee and the head of risk management have unrestricted access to the board and independence.

4.5 Remuneration Granting Systems and Policy

Each business should have a documented compensation policy that has been authorized by the board of directors and represents the goals of the organization while taking into account the organization's stable operations and financial situation. The business should also make sure that cases of a decline in its financial performance are covered by the financial remuneration granting policy, as well as setting appropriate standards regarding the potential reduction of the total financial remuneration granted in the event of the company's poor or negative financial performance.

4.6 Disclosure and Transparency

Shareholders, creditors, stakeholders, and market players should all be well informed on corporate governance. The board of directors of any corporation should approve the disclosure and transparency policy for that organization. Furthermore, all information that must be provided promptly and in accordance with CBK's laws, regulations, resolutions, and guidelines should be covered by disclosure and transparency policies. The board of directors of the firm is in charge of assuring the truthfulness, integrity, and conformity of the revealed information as well as the observance of the business's formally adopted policy in this area and the provision of the framework necessary for its effective implementation. In addition to the disclosures and information mandated by the rules and legislation that apply to these firms, these regulations also impose additional disclosures and information.

4.7 Companies with Complex Corporate Structures

The global financial crisis revealed that, among other factors that contributed to its emergence, the proliferation of pointless legal entities, which resulted in legal overlap between them and operations among their groups, made it difficult to monitor or control the risks facing the institution. Therefore, the board of directors and executive management

in each company should be fully aware of the operational structure of the company and the resulting risks, as well as the knowledge of the organizational structure and the overlap among legal entities in the case of the group. The board of directors should approve particular policies and strategies for establishing new structures, avoiding the construction of pointless complex structures, and maintaining an eye out for risks associated with complex structures, such as lack of transparency in operational risk brought on by the overlap and complexity of the financing structures.

4.8 Protection of Shareholders' Rights

The company's work systems, policies, and practices must be in accordance with all applicable laws, regulations, and directives issued by the supervisory entities, including controls and procedures regarding the protection and equitable treatment of shareholders rights and a focus on safeguarding fundamental shareholder rights with regard to securing ownership registration and transfer methods, ensuring the shareholders' rights to be sufficiently informed or to participate in making decisions.

4.9 Protection of Stakeholders' Rights

In accordance with the laws, regulations, and guidelines issued in this regard, the company's work systems, policies, and practices should emphasize respect for stakeholders' rights as well as their right to have any violations of those rights corrected in accordance with the provisions of applicable laws.

5. Corporate Governance Reform in IFIs in Kuwait

Due to the massive losses suffered by the largest financial institutions worldwide as a result of the 2008 global financial crisis, significant banks globally experienced financial collapse and concerns regarding corporate justice, accountability, and transparency were also raised (Jan et al., 2019; Alhammadi et al., 2020; Farooq et al., 2023). Therefore, to enhance corporate boards and their makeup, structure, and social and ethical components, different CG reforms and regulations have been undertaken in many nations (Jan et al., 2023). Moreover, corporate governance reform's primary goal is to eliminate the obstacles that keep businesses from implementing solid corporate governance procedures that can boost long-term shareholder value by enhancing board supervision and corporate transparency (Fauver et al., 2017).

To enable contextualized corporate governance systems, several nations and regions have passed laws and regulations and associated enforcement measures. For instance, Kuwait is a country where family enterprises and state ownership of corporations predominate, therefore local governments or families are the main focus of governance. The corporate ownership structure, which Kuwait and other members of the Gulf Cooperation Council (GCC) share is determined to be governed by an essential criterion, which is ownership concentration (Boresli et al., 2023). However, the rules and regulations governing corporate governance for Kuwaiti banks were modified in September 2019 as a result of the legislative framework governing the Kuwaiti capital market's continued perceived inefficiency. These changes were implemented in line with the Kuwait Companies Law 2016 in order to provide provisions for an independent board of directors that are motivated by lessons learned from the application of the current governance standards (Central Bank of Kuwait, 2019).

In 2016, the Central Bank of Kuwait decided to issue the new Instructions concerning Shariah Supervisory Governance in Kuwaiti Islamic Banks as part of its efforts to promote Islamic banking business activities in Kuwait, including the development of Shariah supervision instructions at Islamic banks. In addition, the newly issued rules will complement the corporate governance rules and regulations issued by the central bank in 2012 (Central Bank of Kuwait, 2016). The revised Instructions have been published in light of Kuwait's banking sector's expansion in terms of volume and kind of activities, as well as the significant rise in the Islamic finance industry. These Instructions were developed as a

result of the situation in order to increase consumer confidence in Islamic banks and assist such institutions in applying corporate governance guidelines in accordance with Islamic Shariah requirements and goals. In order to achieve the goals of the governance of the Islamic financial institutions, the Central Bank of Kuwait made a significant effort to improve the standards and practices of governance in the entities under its supervision. In 2016, the Central Bank of Kuwait developed the Shariah Supervisory corporate governance codes and guidelines and placed special emphasis on five principles that will be briefly mentioned below (Central Bank of Kuwait, 2016):

5.1 The Board of Directors

The Board of Directors, via the establishment of suitable procedures for the fulfilment of the abovementioned obligations, is ultimately responsible for the Shariah supervisory corporate governance structure and the Bank's compliance with the Islamic Shariah laws. The Board of Directors is anticipated to be keen to perform efficient supervision on the Shariah-compliant corporate governance framework in the Bank and to ensure that the framework approved by the Bank is tailored to the volume, nature, and level of complexity of the Bank's business. In addition, all policies pertaining to the implementation of Islamic Shariah must first get approval from the Shariah Supervisory Board before being approved by the Board of Directors. Moreover, the number of experts in Islamic jurisprudence (Fiqh) who meet the requirements outlined below who are appointed to the Shariah Supervisory Board cannot be fewer than three. The Shariah Supervisory Board members must be familiar with the duties and obligations assigned to them, according to the Board of Directors, who must make sure of this. When creating the committees that report to the Board of Directors, Islamic banks must take the following factors into account:

5.1.1 Remunerations & Nominating Committee

This committee is responsible for overseeing and ensuring the transparency of the appointment and reappointment of Shariah Supervisory Board members, for assessing the effectiveness of the Shariah Board collectively and of each individual member individually, and for establishing policies, remunerations, and compensations for Shariah Supervisory Board members that are appropriate for their roles and responsibilities.

5.1.2 Risk Committee

This committee will oversee the extent to which the Risk Management is in compliance with the Islamic Financial Services Board's standards for risk management, including Shariah risks, and the Basel Committee's standards with regard to credit risk, market risk, and operational risk, without compromising the provisions of Islamic Shariah principles, in accordance with the Shariah Board's resolutions and the pertinent instructions issued by the Central Bank.

5.1.3 Audit Committee

This committee is responsible for overseeing the extent of adherence to Islamic Shariah principles and regulations, as well as the use of funds from restricted investment accounts. It also makes sure that expenses and profits have been distributed in accordance with agreements between the Bank and account holders and in accordance with Islamic Shariah provisions and rules approved by the Shariah Supervisory Board.

5.1.4 Corporate Governance Committee

In order to ensure adherence to the Shariah Audit Manual, this committee will work in tandem with the Shariah Supervisory Board and the Audit Committee, focusing on protecting the interests of investment account holders and maintaining the confidentiality of Islamic banking transactions.

5.2 Independence

Independence is intended to create a space for the Shariah Supervisory Board of the Bank to issue fatwah and Shariah judgments in accordance with and as necessary by the independent judgment controls and conditions for giving *fatwa* (opinions) without influence on the members of the Shariah Supervisory Board, and to ensure enhancing stakeholders' and shareholders' confidence in the soundness of transactions in terms of the Shariah consideration.

To ensure the independence of Shariah Supervisory Board members, a member of the Shariah Supervisory Board is not allowed to be related to any bank officials in a first-degree manner in order to prevent them from interfering with the board's ability to make decisions that are in the best interests of the Islamic bank where they work. Moreover, no member of the Shariah Supervisory Board can be related directly to top executives who now work for or have worked for the Islamic bank or any of its affiliates (during the most recent fiscal year), such as through marriage, children, brothers, or sisters. Lastly, a member of the Shariah Supervisory Board or their connected parties are prohibited from holding a significant stake in, serving as an executive officer or manager of, or being a partner in, any commercial company that the Islamic bank or any of its subsidiaries has made a significant payment to or received from during the current or just-ended financial year.

5.3 Efficiency & Fitness

Efficiency and fitness refer to the Shariah Supervisory Board members' academic credentials, real-world experience, excellent reputation, and track record. Therefore, a member of the Shariah Supervisory Board has to hold the following academic credentials: a bachelor's degree in Islamic Shariah, specifically in Islamic commercial jurisprudence (*Fiqh al-mua'malat*), from a university accredited by the Ministry of Higher Education in Kuwait, or by the National Bureau for Academic Accreditation and Education Quality Assurance (NBAQ) for foreign universities outside Kuwait, or they must be among the scholars whose efficiency is well-known. Having sufficient understanding of both conventional and Islamic finance is another need for membership.

5.4 Confidentiality

Members of the Shariah Supervisory Board may have access to files, papers, drafts, and discussions that are of a confidential character in line with the Bank's internal policies and the applicable market norms. Information that is obtained by Shariah Supervisory Board members when it is unavailable to the public and is not allowed to be disseminated is referred to as confidential information. Such material includes any that is stamped or otherwise identified by the Bank as being confidential or as having some connection to Bank-related discussions. Therefore, members of the Shariah Supervisory Board at the Bank are required to protect the secrecy of the information mentioned above or any other information that the Bank deems secret, and they are also cautioned against disclosing information about transactions and products that the Bank engages in.

5.5 Consistency

Consistency is intended to be agreement among the Shariah Supervisory Board members in expressing their opinions and fatwah submitted to the Bank, as well as a desire to render the resolutions in consensus and avoid voting by majority, unless consensus cannot be reached within a reasonable amount of time. Efficiency and independence are associated with consistency, which is related to professional ethical concerns.

In 2020, the Central Bank of Kuwait enacted a new law regarding the Shariah supervisory board (SSB) in which a committee with the name "The Higher Committee of Shariah Supervision" must be established within the Central Bank. The Central Bank of Kuwait's Board of Directors will set the guidelines for the committee's composition, method of appointment, way of conducting business, scope of work, and compensation of members. The aforementioned committee is required to provide its opinion on Shariah-related

concerns pertaining to Islamic finance and banking that have been brought to it by courts or arbitration centres. Moreover, the board of directors of the bank may refer the issue to the Higher Committee of Shariah Supervision in the Central Bank of Kuwait, which will act as the final arbiter of the matter, if there is a disagreement among the members of the Shariah Supervisory Board in an Islamic bank regarding a Shariah ruling (Central Bank of Kuwait).

COMPARISON BETWEEN CORPORATE GOVERNANCE IN KUWAIT IFIS AND THE GLOBAL BEST PRACTICES

Shariah governance is a mechanism that makes sure Islamic financial institutions adhere to the laws and standards of Shariah in their daily activities and output (Alam et al., 2021). Moreover, shariah governance is crucial to safeguard the interests of all stakeholders, particularly the clients, and to ensure the integrity, credibility, and stability of the Islamic financial services sector. However, because various countries and institutions may have distinct legal systems, regulatory frameworks, and market trends, there is no consistent or standard method to Shariah governance across different institutions and countries (Hasan, 2011). As a result, comparing and contrasting Shariah governance methods across different jurisdictions and comparing them to international best practices is valuable. Therefore, in this section, the shariah corporate governance that was reformed by AAOIFI IFSB in 2022 will be compared with the shariah corporate governance that was reformed by the Central Bank of Kuwait in 2016.

1. Board of Directors

According to IFSB (2022), the board of directors is in charge of ensuring that the Institutions offering Islamic financial services (IIFS) have a strong and functional environment for Shariah compliance. The board is in charge of constructing the institution's structure for good governance and control, coming up with a plan for adhering to Shariah principles and laws, and supervising the administration while it carries out the plan and accomplishes the intended goals. In order to carry out its duties under this standard, the board may enlist the aid of any of its standing committees. In addition, in order to effectively implement Shariah governance inside the IIFS, the board of directors should establish policies pertaining to governance structure and reporting arrangements, risk management for Shariah non-compliance, and other relevant topics. Additionally, it should monitor the performance of senior management and other officers in charge of putting the Shariah governance framework into action so that the board is confident in the alignment of the performance metrics used to evaluate their performance with Shariah governance goals. Most importantly, the board of directors should interact with the shariah supervisory board to give the facts, reasoning, and foundation for any judgments or advice of the SSB adequate consideration before reaching its own conclusion and to fairly evaluate the ramifications of adopting any decisions or advice of the SSB.

On the other hand, according to the Central Bank of Kuwait (2016), the Board of Directors, via the establishment of suitable procedures for the fulfilment of the abovementioned obligations, is ultimately responsible for the Shariah supervisory corporate governance structure and the Bank's compliance with the Islamic Shariah laws. The Board of Directors is anticipated to be keen to perform efficient supervision on the Shariah-compliant corporate governance framework in the Bank and to ensure that the framework approved by the Bank is tailored to the volume, nature, and level of complexity of the Bank's business. In addition, all policies pertaining to the implementation of Islamic Shariah must first get approval from the Shariah Supervisory Board before being approved by the Board of Directors. Moreover, the number of experts in Islamic jurisprudence (Fiqh) who meet the requirements outlined below who are appointed to the Shariah Supervisory Board cannot be fewer than three. The Shariah Supervisory Board members must be familiar with the duties and obligations assigned to them, according to the Board of Directors, who must make sure of this.

The main difference between IFSB and CBK is that, according to IFBS, the Board of Directors should consult with the SSB, take their recommendations into consideration, and assess the effects of doing so. CBK said that before being authorized by the Board of Directors, policies pertaining to Islamic Shariah must be reviewed by the Shariah Supervisory Board. It also stipulates the bare minimum of Islamic law specialists that must be on the SSB. Furthermore, the Board of Directors, in accordance with IFSB, is in charge of establishing the institution's framework for good governance and control, as well as creating a strategy for Shariah compliance, overseeing its implementation, and enlisting the help of its standing committees. While the Board of Directors of CBK is mostly in charge of the Shariah-compliant corporate governance structure and ensuring the Bank complies with Islamic law. It highlights how crucial effective Shariah-compliant corporate governance framework oversight is.

2. Senior Management

IFSB states that the implementation of the Shariah governance structure and making ensuring that Shariah compliance is ingrained in the IIFS's daily operations fall within the purview of senior management. The management is in charge of making sure that the institution's operations, particularly its financial agreements, contracts, and transactions with its clients and other stakeholders, as well as any associated policies and procedures, are, in substance and in their legal form, in compliance with Shariah principles and laws. Moreover, the design, execution, and upkeep of proper internal control processes with regard to such compliance and the preservation of pertinent accounting records fall under the purview of management as well. A successful continuous professional development and training program for the board, the management, and other Shariah governance organs, as well as for IIFS employees, must be developed and implemented by management with the help of the SSB and the Shariah compliance department if necessary.

The central Bank of Kuwait used the term executive management instead of senior management and appointed the executive management to monitor and carry out the Shariah decisions made by the Shariah Supervisory Board in the Bank. It is also in charge of deciding which Shariah matters should be referred to the Shariah Supervisory Board for its view. The executive management is also charged with allocating the necessary funds and personnel to enable Shariah-compliant corporate governance, in accordance with the scope and complexity of the Bank's operations. Among other things, this should involve allocating adequate funds and the required reading and research resources. Lastly, the executive management should provide enough funds and personnel to enable Shariah compliant corporate governance, adapted to the scope and complexity of the bank's operations. This should, among other things, involve allocating the necessary funds and the required reading and research materials.

Therefore, the main differences between IFSB and CBK are the following: the senior management, according to IFSB, is responsible for implementing the Shariah governance structure and ensuring Shariah compliance, while the executive management, according to CBK, is responsible for monitoring and executing Shariah decisions made by the Shariah Supervisory Board. Moreover, the management's involvement in determining whether Shariah-related issues should be forwarded to the Shariah Supervisory Board is not mentioned specifically in the IFSB rules. While the CBK executive management has a special responsibility in determining which Shariah concerns should be reported to the Shariah Supervisory Board for its opinion. The emphasis is on developing compliance and internal control mechanisms. This means that executive management should take a more active part in assessing the Shariah compliance of different areas of the institution's activities.

3. Shariah Supervisory Board

According to IFSB (2022), to guarantee adherence to Shariah principles and regulations, the SSB shall oversee all IIFS activities, dealings, and procedures. Additionally, the SSB has to have a solid framework to direct its decision-making process. When making judgments, the

SSB must consider relevant business realities, practices, related risks, and consumer protection issues. Furthermore, SSB members must use reasonable judgment while making decisions, taking in mind both the technical requirements of Shariah and its overall goals. The SSB members must not have conflicting time obligations that might make it difficult for them to perform their tasks. SSB members are expected to efficiently manage their responsibilities in light of their many assignments and to uphold confidentiality when performing their duties. In addition, any opinions the SSB expresses about matters pertaining to Shariah must be properly documented, together with the reasoning behind such opinions. These should be kept in one place for easy access. All Shariah judgements pertaining to the goods and services provided by the IIFS, along with their supporting documentation, must be always made available by the SSB. The IIFS will make sure that these decisions and the evidence supporting them are posted on the IIFS website. Lastly, for any Shariah judgements it has already made, the SSB must adopt a specific procedure and make arrangements for their distribution to the necessary parties.

In Kuwait, the Shariah Supervisory Board would be responsible for monitoring all Shariah-related matters pertaining to the activities and transactions of the Bank. The internal Shariah Audit staff can make this happen. The SSB shall receive the internal Shariah audit reports and comments on a regular basis so that it may identify the problems that demand its attention and, if appropriate, offer corrective measures. Additionally, the board must provide sufficient information in the Bank's annual financial report about the extent of the Bank's compliance with Islamic Shariah laws. In addition, the SSB is responsible for expressing the Shariah Supervisory Board's views on bank transactions and matters that have been reported to it by executive management, bank divisions, or the Shariah Internal Audit Department. The SSB shall review and approve all contracts, agreements, and operating documents used by the Bank in its dealings with shareholders, clients, investors, and others. When required, it should also participate in the alteration and development of the aforementioned documents. It must also review contracts made by the Bank to make sure they are free of any limitations imposed by Shariah and to confirm that any transactions made are for goods that have been authorized by the Shariah Supervisory Board. Most crucially, the SSB should supervise the compilation of the views (Fatawa) of the Shariah Supervisory Board and approve the ones released therefrom, taking into account that they would be considered official Shariah papers and references that should be followed.

The main difference between IFSB and CBK shows that The Shariah Supervisory Board (SSB), according to CBK, must oversee the compilation of the opinions (Fatawa) of the Shariah Supervisory Board and formally ratify them as authoritative Shariah documents and references. Moreover, IFSB emphasizes the SSB's obligations with relation to adherence to Shariah principles, sound judgment, secrecy, and recordkeeping. While CBK emphasizes the SSB's role in monitoring bank transactions, offering opinions on them, analysing contracts, and preparing official Shariah papers.

4. Internal Shariah Audit

The internal Shariah audit (ISA) function, according to IFSB (2022), is a part of an IIFS's governance structures, separate from the management, and its main goal is to reassure the board and the SSB that the IIFS complies with Shariah laws and regulations. The main goal of ISA is to give the board and the SSB confidence of the IIFS's adherence to Shariah principles and norms in the form of an opinion. The ISA is required to conduct an independent evaluation of the IIFS's internal Shariah controls, governance processes, and risk management systems for managing Shariah non-compliance, as well as the degree to which the IIFS's business, operations, and activities generally adhere to Shariah principles and regulations. In addition to the primary objective, the ISA function is responsible for giving the board and the SSB the following assurances: whether an adequate governance structure or framework is in place to ensure that the IIFS operates in accordance with Shariah principles and rules and applicable governance requirements; whether the IIFS'

management has designed and implemented adequate internal controls to ensure compliance with Shariah principles and rules; and whether the IIFS has implemented adequate internal controls. Furthermore, the creation of an ISA charter and manual, which must be periodically reviewed and updated as necessary, is the responsibility of the ISA head.

In Kuwait, the Internal Shariah Audit is regarded as a crucial component of the Bank's overall Shariah Supervisory System. the creation of an internal division (department) apart from senior management to oversee the internal shariah audit. Additionally, any activity, product, service, or contract applied for in the Bank should be confirmed by the internal Shariah audit to be permissible by the shariah supervisory board. The internal shariah audit should verify conformity and consistency with the resolutions approved in conjunction therewith, review all forms, contracts, and agreements as well as the implementation methods and ensure that the Shariah Supervisory Board-approved forms, contracts, agreements, and business processes are followed by the Bank's branches, its internal and external divisions, and its subsidiaries. Moreover, it should examine the business practices and directives issued by Bank divisions considering the decisions made by the Shariah Supervisory Board. Ensure the efficacy, efficiency, and assessment of the internal audit system for Shariah compliance, as well as the Bank's adherence to its Shariah policy. Most importantly, the internal shariah audit should Prepare the annual Shariah audit plan that must be approved by the Audit Committee and the Shariah Supervisory Board, as well as a periodic report for each regulatory period that includes the results of on-site supervision of activities and operations and lists any Shariah notes that were made during that time.

It is important to note that the major objective of the ISA, according to the IFSB, is to reassure the board and the SSB that Shariah rules and regulations are being followed. While the ISA at CBK is in charge of validating the legality of operations, goods, services, and contracts in accordance with the decisions of the Shariah Supervisory Board, it is regarded as a critical part of the Bank's overall Shariah Supervisory System. Furthermore, the IFSB states that the ISA is in charge of assessing internal Shariah controls, governance procedures, and risk management programs connected to Shariah non-compliance. While employed by CBK, the ISA is in charge of inspecting all paperwork, agreements, contracts, and business procedures to make sure that all decisions made by the Shariah Supervisory Board are followed.

5. Independent External Shariah Audit

The mission of the Independent External Shariah Audit (IESA), according to IFSB (2022), is to annually offer an independent assurance opinion about whether financial agreements, contracts, and transactions made by an IIFS are in line with Shariah principles and regulations for a given time frame. The board's audit committee will first hear the IESA report before presenting it to the SSB. In addition, after a period of three years from the date when this standard became effective, this concept becomes a requirement for public interest IIFS.

In Kuwait, the Independent External Shariah Audit is known as the Outsourced Shariah Audit Firm. The responsibility of this audit firm is to monitor all transactions and verify that they adhere to Islamic law, as determined by the Shariah Supervisory Board's decisions and Shariah opinions (*fatwa*). On the recommendation of the Board of Directors, this audit firm should be chosen by the general assembly of the bank. The general assembly will get the reports from the outsourced Shariah audit company, and the Shariah Supervisory Board will also receive a copy. Moreover, the appointment of the bank's outsourced Shariah audit company will be for a single year only, extendable for a maximum of four consecutive financial years, and it cannot be renewed unless at least two financial years have passed.

The major difference between IFSB and CBK is that the IESA's mandate, according to IFSB, is to yearly offer an independent assurance opinion about the conformity of

financial agreements, contracts, and transactions with Shariah standards. The Outsourced Shariah Audit Firm's responsibility at CBK is to keep track of all transactions and ensure that they comply with Islamic law as specified by the judgments and fatwas of the Shariah Supervisory Board. It does not address giving an assurance opinion specifically. Additionally, IFSB mentioned that IESA will be a requirement for IIFS after the period of three years after this standard becomes effective. While the CBK stated that the Outsourced Shariah Audit Firm appointment is for a single year, with the option of renewal for a maximum of four consecutive fiscal years.

THE DIFFICULTIES OF APPLYING THE GLOBAL CORPORATE GOVERNANCE IN IFIs IN KUWAIT

To begin with, Kuwait faces several difficulties when seeking to implement global standards for corporate governance in Islamic financial institutions, similar to what many other nations experience. These issues result from a confluence of cultural, legal, and sector-specific elements. For instance, Kuwaiti businesses are surrounded by state-owned, powerful families, people, and institutional investors. Strict restrictions governing foreign ownership further limit the effects of corporate governance and FDI entry (Alanssari & Mihaylova, 2019). Therefore, companies with concentrated ownership are more likely to reduce agent-principal conflict of interest (Fang et al., 2019). In addition, in Kuwait, a substantial number of Islamic financial institutions are family-owned or a component of bigger corporations. The execution of governance procedures intended to safeguard the rights of minority shareholders may be hampered by the possibility that these companies put family interests ahead of shareholder interests. It should be mentioned that Kuwait, to protect its natural oil reserves, is seen to need to prohibit foreign ownership (Zidi & Ben Ali, 2016). However, under the Kuwaiti 2035 vision, the focus on economic diversification encourages foreign ownership; as a result, Kuwait is undergoing policy reforms and legal amendments to facilitate foreign ownership under Law No. 116/2013 (Real Estate ownership law), Law 74/1979 (Article 23/24 of Kuwaiti Commercial Code), and Law 68/1980 (Real Estate ownership law) (Boresli et al., 2023). According to Lopez and Bendix (2020), the foreign investor or holding group is entitled to possess more than 49% of the consumer and retail, healthcare, telecom, and technology sectors. Moreover, the structures of Kuwait's state-owned businesses are more likely to replace their dependency on oil, and the country's economic diversification is advancing thanks to the adoption of CG initiatives (Grand & Wolff, 2020). Kuwait's economy has been identified as an emerging economy that is likely to adopt policy reforms, and foreign ownership laws are facilitating transitions for enhancing corporate governance (Elfeituri, 2018), where FDI and CG are likely to interact and break down barriers to interconnectedness.

In MENA countries, shareholder passivity is a problem that is well acknowledged, and many people think that shareholders are insufficiently proactive in exercising their legal rights. Shareholder passivity, as it relates to the Kuwaiti environment, is also demonstrated through voluntarily delisting. A shareholder or shareholders who possess 5% to 30% of the company's shares may make an objection to the general assembly's resolution, according to the CMA Report on delisting. Although it was made clear in the Report that shareholders were hesitant to oppose the delisting, their inaction allowed those with a concentration of ownership to decide to proceed with the delisting without opposition. Therefore, Kuwait's lack of shareholder activism has led to the rise in the number of businesses that voluntarily delist. Therefore, due to concentrated ownership and the regulated character of corporations, shareholder interactions are still restricted. This might spark worries that the firm has become dominated by a few significant shareholders as a result of the concentration of ownership, leaving the smaller shareholders without any influence. Given the concentration of ownership, social and legal traditions, and low foreign ownership in the Middle East as a whole, including Kuwait, shareholder activism is uncommon (Almutairi, 2021). There are two issues with Kuwaiti shareholders' inactivity. First, regulators alone would be responsible for changing corporate governance, and their

speed is too sluggish to keep up with urgent advances and broad trends. The second is that it has been challenging to define the director's responsibilities due to a lack of lawsuits brought against the board of directors. As a result, the board's legal obligation is not clearly understood, which raises the additional issue that the board does not take its legal duties into account when making decisions. The purpose of this part is to show that there are a variety of possible causes for the issue of passive shareholders in Kuwaiti enterprises, including those that are connected to legal, cultural, and social concerns, which will be covered later (Amico, 2014).

Studies that were both quantitative and qualitative showed a change in Kuwaitis' attitudes about corporate governance. There is a serious credibility problem with the way corporate governance is currently understood in Kuwait. Minority shareholders are not adequately protected by the ownership structure, and the practice of playing dual roles within the same family is controversial. It was discovered that several qualities, such as board size and independence, were useless. On the other hand, businesses with high levels of debt were risky and made it difficult for Kuwaiti banks to keep an eye on the market (Alabdullah et al., 2023).

For instance, Alqatan (2019) investigated the impact of demographic factors on earnings management (EM). The study set out to address two key issues: first, did the implementation of the 2013 Kuwait Corporate Governance law change the link between board diversity, earnings management, and company success, and second, did the law itself have any effect on board diversity? Between 2010 and 2017, secondary data from 103 non-financial firms listed in Kuwait, such as annual reports, was collected. For data analysis, a variety of statistical techniques were used, such as correlation, multiple regression, and robust regression. Tobin's Q, return on equity, return on assets, and total shareholder return were employed to assess firm success. The board size, independence, gender, age, place of origin, and role reversal were independent factors. Several proxy factors were also considered, including business size, industry, debt, income, gold, and oil prices, return on investment (ROI), and return on equity (ROE). Although the impact varied across several performance indicators, the study indicated that board diversity significantly impacted firm success. Board diversity did not significantly change because of the corporate governance code's implementation.

Al-Saidi (2021) revealed that Kuwait lacks defined standards controlling corporate governance despite the importance of problems like boards of directors, shareholders' rights, transparency, and audits. All firms listed on the Kuwait Stock Exchange (KSE) are expected to abide by new governance requirements that the Kuwaiti government enacted in 2017. 89 non-financial listed firms operating between 2017 and 2019 made up the research sample. The subjects of examination were board size, board independence, family directors, and board diversity. The study found that bigger, independent, and diverse boards had a favourable effect on a company's bottom line, which was in accordance with Tobin's findings. Only family directors, however, had a significant effect on the bottom line when results were broken down by return on assets (ROA).

Boresli et al. (2023) looked at the connection between foreign ownership and corporate governance in Kuwait's Islamic capital market. The study used information from 58 listed companies in the Boursa Kuwait to incorporate agency theory, stewardship theory, and resource dependence theory. Significant factors that influence foreign investment include board size, risk management procedures, the CEO's dual role, environmental, social, and governance (ESG) standards, and the debt-to-equity ratio. Variables including board independence, firm size, and return on assets were discovered to have a substantial impact, in contrast to conflicting findings in previous studies. By displaying the integration of three theoretical perspectives (resource dependency, agency, and stewardship) in the Kuwaiti market, the results advance corporate governance theory and policy and make it easier to include or exclude particular corporate governance models in discussions and policies in the future.

The current corporate governance codes and guidelines in Kuwait do not differentiate between the small, medium, large, and family-owned firms. Unfortunately, the CMA disregarded corporate size when developing the latest regulation, in direct opposition to the notion that "one size does not fit all" and the principle of "comply or explain." (Almutairi, 2021). For instance, Morocco controls businesses by creating distinct corporate governance rules to govern various categories of listed firms, including small- and medium-sized enterprises (SMEs), family-owned businesses, state-owned enterprises (SOEs), and credit organizations (Boubaker & Nguyen, 2014). In addition, the growing number of voluntarily delisted firms that are registered on the OTC is one of the most glaring flaws in the corporate governance system that became obvious in the voluntary delisting phenomena. The Bursa, which was also a listed firm on the OTC until September 2020, runs the OTC, an automated platform for trading unlisted securities (Bursa Kuwait, 2019).

FINDINGS

By examining the existing literature, we could find that there are many similarities and differences between AAI OFI IFSB and Kuwait Shariah corporate governance. For instance, the major differences between both codes and guidelines comprise of the board of directors in which IFSB stated that the BoD should listen to the SSB recommendations and take it into consideration, while CBK stated that there should be cooperation between the BoD and SSB and the policies enacted by the BoD should be reviewed by the SSB before. Moreover, CBK charged the BoD to oversee the shariah-compliant activities in the banks comply with the Islamic law, while IFSB charged the BoD to create the framework of the IFI and comply it with the Islamic law.

In addition, the senior management, according to IFSB, is responsible for implementing the shariah governance in the IFIs, whereas the executive management, according to the CBK, is responsible for monitoring and reviewing the decisions made by SSB as well as being the most effective part of the corporate and assess the shariah compliance activities in the IFIs. Moreover, CBK gives the SSB the mission to oversee the Fatwa and formally ratify them as authoritative Shariah documents and references as well as monitor the bank transactions and analysing contracts, whereas IFSB stated that SSB obligations are sound judgment, secrecy, and recordkeeping.

Furthermore, the main mission of the ISA, according to IFSB, is to reassure the board and the SSB that Shariah rules and regulations are being followed, while CBK regarded ISA as a crucial part of the Shariah Supervisory System in the bank and it should validate the legality of operations, goods, services, and contracts in accordance with the decisions of the Shariah Supervisory Board. Finally, IESA, according to IFSB, is to yearly offer an independent assurance opinion about the conformity of financial agreements, contracts, and transactions with Shariah standards, while at CBK IESA should keep track of all transactions and ensure that they comply with Islamic law as specified by the judgments and fatwas of the Shariah Supervisory Board.

Overall, all IFIs fall within the purview of the IFSB's shariah governance system, including Islamic banks, Islamic insurance (*takaful*) providers, Islamic capital market organizations, and Islamic collective schemes for investment. However, in Kuwait, due to their dominance within Kuwait's Islamic banking sector, Islamic banks are primarily subject to the shariah governance system in that country. Moreover, the Capital Market Authority Law and the Executive Bylaws for Takaful Insurance Companies are two additional laws and regulations that apply to different categories of IFIs in Kuwait. Furthermore, the four main components of the IFSB's shariah governance system are (i) general approach, (ii) competence, (iii) independence, and (iv) secrecy. These components are meant to guarantee that IFIs have efficient oversight, control, and review processes to ensure shariah compliance in all their operations and activities. These components are included in Kuwait's shariah governance system, however there are certain differences and particulars.

For instance, Kuwait mandates that IFIs have a minimum of three shariah board members, but the IFSB makes no such requirement. Kuwait additionally mandates that IFIs

include information about the names, education backgrounds, and salaries of its shariah board members in their annual reports; however, the IFSB simply advises doing so. Lastly, the shariah governance framework developed by the IFSB is based on a principle-based methodology that gives IFIs freedom and variety to adopt and use the framework in accordance with their unique requirements and circumstances. The shariah governance structure in Kuwait is built on a rule-based strategy that lays out specific guidelines that IFIs must abide by in order to comply with shariah. Due to this, Kuwaiti IFIs may not be as flexible or innovative as those in other IFSB member nations.

In addition, Kuwait faces difficulties in implementing global corporate governance standards, similar to many other nations. These challenges arise from a combination of cultural, legal, and sector-specific factors. Firstly, Kuwaiti businesses often have concentrated ownership by state-owned entities, powerful families, and institutional investors. Foreign ownership restrictions limit the impact of corporate governance and foreign direct investment (FDI). Moreover, Kuwait is undergoing policy reforms and legal amendments to encourage foreign ownership and economic diversification, aligning with its 2035 vision. This includes changes in laws to facilitate foreign ownership in various sectors. Additionally, shareholder passivity is a widespread issue in Kuwait, where shareholders often do not actively exercise their legal rights. This passivity is evident in voluntary delisting, where shareholders fail to oppose resolutions. Kuwait's shareholder passivity is influenced by legal, cultural, and social factors. Regulators play a key role in changing corporate governance, but they often move slowly. Legal obligations of the board are not well-defined, further contributing to passivity.

Besides, many studies show changing attitudes in Kuwait regarding corporate governance. Minority shareholders may not be adequately protected, and certain corporate characteristics, such as board size and independence, may not always correlate with success. Lastly, the current corporate governance codes and guidelines in Kuwait do not differentiate between different types and sizes of firms. This one-size-fits-all approach contrasts with the idea that regulations should adapt to the characteristics of each company. The rise in the number of businesses voluntarily delisting is noted as a flaw in Kuwait's corporate governance system. The presence of an automated platform for trading unlisted securities also plays a role in this phenomenon.

CONCLUSION

This research sheds light on the complicated and changing governance landscape in Kuwait, a country that, like many others, has realized the critical role that good corporate governance plays in promoting economic growth, luring investors, and guaranteeing the long-term viability of companies. The study has revealed several key findings and implications:

The findings of the research revealed important distinctions between the Central Bank of Kuwait (CBK) and Islamic Financial Services Board (IFSB) shariah governance systems. These discrepancies exist in important areas, including the overall strategy for shariah compliance as well as the duties and tasks of the Board of Directors (BoD), Senior Management, Shariah Supervisory Board (SSB), and Islamic Supervisory Auditor (ISA). The IFSB places a strong emphasis on the BoD and SSB working together to create a structure that complies with Islamic law. The CBK, on the other hand, stresses a more thorough monitoring role for the BoD, including the need to guarantee shariah compliance in the bank's operations. These variations reflect the various governance and oversight models used by Kuwait's Islamic financial institutions. Furthermore, there are substantial differences between the two systems in the duties and objectives of the ISA and the Islamic External Shariah Auditors (IESA). The CBK lays a stronger focus on confirming the legality of activities and contracts in conformity with SSB judgments, while the IFSB emphasizes the necessity for independent assurance views on compliance with shariah criteria. These variances are a reflection of Kuwait's particular regulatory framework.

It is clear from the larger backdrop that Kuwait suffers difficulties implementing international corporate governance norms, which are largely influenced by cultural, legislative, and sector-specific constraints. The country's corporate governance reform is complicated in part because of centralized ownership by governmental agencies and wealthy individuals, as well as prohibitions on foreign ownership. However, in line with its 2035 goal, Kuwait is aggressively seeking legislative and regulatory changes to promote international investment and economic diversification. These changes show a dedication to adapting to changing global trends and encouraging a more open and responsible corporate environment. Another difficulty is the issue of passive shareholder behaviour, which is influenced by social, cultural, and legal considerations. Shareholders are reluctant to participate actively in governance issues. Regulatory authorities are essential in advancing corporate governance reform, but they frequently encounter difficulties in hastening required adjustments. The necessity for ongoing examination and modification of governance procedures is highlighted by shifting perceptions of corporate governance in Kuwait. A more specialized regulatory framework is necessary since the present corporate governance standards' one-size-fits-all approach may not sufficiently handle the various demands of different organizations.

It is strongly advised to establish a complete set of policies and actions in order to achieve successful corporate governance reform in Kuwait. First, create distinct regulatory frameworks that are both transparent and adaptable, allowing for personalized governance methods while guaranteeing compliance with international norms. Boost shareholder engagement by allowing them to actively participate in company decision-making processes through awareness campaigns and incentives. Increase accountability by requiring the disclosure of ownership structures, board member histories, and compensation in annual reports. Increase the rate of regulatory revisions so that you can react quickly to new trends and problems in global governance. In addition, to guarantee that boards of directors, top management, and regulatory bodies have a thorough awareness of contemporary governance concepts and practices, give priority to education and training programs in these areas. Kuwait can create a corporate governance climate that encourages economic growth, draws in investment, and assures the long-term viability of its firms by putting these rules into place.

LIMITATIONS AND FUTURE SUGGESTIONS

The research focused mostly on the comparison between the Kuwaiti and AAI OFI IFBS shariah governance regulations and did not account for the differences in how Shariah governance is actually implemented in IFIs, which may have affected how thorough the analysis was. The lack of direct stakeholder engagement and interviewing in the research results in a deficiency in the representation of real-world viewpoints and experiences pertaining to Shariah governance. The depth of understanding into the larger ramifications of these practices is limited by the lack of a quantitative assessment of the effect of Shariah governance on financial performance or risk management. Therefore, it would be ideal for future studies in this field to work closely with Islamic financial institutions in order to get more detailed understanding of their Shariah governance procedures. To gain a deeper knowledge of how guidelines are really implemented in practice, interviews with important stakeholders—such as top management and members of Shariah boards—should be conducted. A deeper comprehension of the worldwide landscape of Shariah governance in Islamic finance would result from comparative research across several jurisdictions. Further research on the growth of Shariah governance rules over time, particularly post-2016 advancements, would provide a more thorough understanding of the implications and modifications to regulations. Finally, in order to present a comprehensive picture of Shariah governance's efficacy in guaranteeing compliance and ethical standards, researchers are urged to investigate the effects of Shariah governance on financial performance and risk management inside IFIs.

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