RECENT ADVANCES in MANAGEMENT, MARKETING and FINANCES

Proceedings of the 7th WSEAS International Conference on Management, Marketing and Finances (MMF '13)

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January 30 - February 1, 2013

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Preface
This year the 7th WSEAS International Conference on Management, Marketing and Finances (MMF '13) was held in Cambridge, MA, USA, January 30-February 1, 2013. The conference provided a platform to discuss business management, financial management, managerial accounting, business ethics, marketing, integrated manufacturing systems, man-machine integration, electronic commerce, digital marketing, business law, public finance, stock exchange analysis and prediction, political sciences, crisis management etc with participants from all over the world, both from academia and from industry.

Its success is reflected in the papers received, with participants coming from several countries, allowing a real multinational multicultural exchange of experiences and ideas.

The accepted papers of this conference are published in this Book that will be sent to international indexes. They will be also available in the E-Library of the WSEAS. Extended versions of the best papers will be promoted to many Journals for further evaluation.

Conferences such as this can only succeed as a team effort, so the Editors want to thank the International Scientific Committee and the Reviewers for their excellent work in reviewing the papers as well as their invaluable input and advice.

The Editors
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Shariah Governance for Islamic Financial Institutions in Malaysia on the Independency of Shariah Committee and Efficiency of Its Shariah Decisions

Survey on Implementation of Internal Shariah Compliance Function in Malaysian Islamic Banks and Takaful Companies

Authors Index
Abstract: The most widely used value standards are “fair market value” and “fair value”. A linguistic approach to the two terms indicates that “fair value” is a more comprehensive notion, because it refers to a value that is “right and correct”. The “right and correct” concept is a more permissive one, the best way to illustrate it is by giving an example: the right value of an asset can be represented by its value on the market, by its intrinsic value, by its exchange value, or, in some situations, by the liquidation value of that asset. The concept of “fair market value” is a more restrictive one, due to the presence of the term “market”. This trait can make one ask himself whether the term “market” is linked to the adjective “fair” (like in “fair market”) or the noun “value” (like in “market value”). We are obliged however to determine the value we would receive on the market – during a real or a hypothetical transaction – in exchange for an asset. The “fair market value” represents the base of all judgments of value, while “fair value” is defined in terms of financial reports. Fair value has been a term used in the accounting literature for a considerable period of time, but without ever being defined. Firstly appeared in 1953 in the 43rd number of Accounting Research Bulletin, which bearded the title “Restatement and Revision of Accounting Research Bulletins”. Afterwards, the term appeared in Accounting Principles Board Opinions – APB (Accounting for Non-monetary Transactions – 1973), and in the SFAS 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings – 1977).

The impact of fair value accounting is essential for all users of financial accounting information, especially when considering investment and financial decisions, therefore becoming the centre of attraction for a significant number of researchers and policy applications, including corporate governance. Since the use of fair value often involves estimates, this can also be considered as increasing managers’ discretion and further impact its implementation through reporting discretion issues. In terms of risk management, the aim and the standard setting challenge is to arrive at mandated disclosures that provide knowledgeable users of financial reports with a clear picture of the reporting enterprise's risk exposures and how those risk exposures (and concentrations) are shifting over time (Schipper, 2005).

Fair value has its supporters, but also its’ inquisitors, motivated by its advantages and limits, while an orientation in future of the regulations upon historical values does not represent itself an optimistic vision upon the future. A series of regulatory organisms, committees and commissions, studies, some in collaboration, others individually, ways to improve these aspects that regard accounting and audit, but only future will show us the direction things will evolve, how well they have collaborated and the impact that they want to have upon the market, the way remaining opened to multiple analysis and researches in the domain.

Brief Biography of the Speaker: Jiří Strouhal graduated from the University of Economics Prague in 2003 and finished his doctoral studies in 2005. In 2006 he became an accounting expert (Czech accounting profession certification scheme based on British ACCA curricula). In the period 2007 – 2009 he was member of the Committee for Education and Certification of Accountants Czech Republic and Executive Board member of the Chamber of Certified Accountants (Union of Accountants CR). From 2011 he is President of Chamber of Certified Accountants Czech Republic and member of Accreditation Committee of this professional organization. He is reputed academician and practitioner; he published more than 400 research outputs, from which could be stated 25 monographs in the area of accounting and corporate finance, more than 40 research papers published in reputed databases (ISI, SCOPUS – important piece of them in WSEAS/NAUN research journals). His SCOPUS H-index is 7 and his Google Scholar H-index is 10. His major is corporate financial reporting, partially focused on international accounting harmonization and financial securities reporting. He was a plenary speaker of DEEEE 2010 conference in Tenerife, E-ACTIVITIES 2011 conference in Jakarta, and conferences in Harvard (ICBA 2012) and Cambridge (EDUCATION 2012). Also did organized special sessions focused on measurement issues in finance and accounting at WSEAS conferences in Timisoara (EMT 2010), Iasi (AEBD 2011), Angers (EMT 2011), Harvard (ICBA 2012), Porto (AEBD 2012) and Zlín (FAA 2012). He was a chair of Zlín conferences which were held in September 2012 at Tomas Bata University in Zlín, Czech Republic.
Plenary Lecture 2

Firms Connection with Government: Does Corporate Governance Matters?

Associate Professor Romlah Jaffar
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Abstract: One important lesson learned from Asia economic crisis during late 1990’s was the importance of good governance in managing a business corporation. The immediate reaction by the Malaysia government was to develop rules and regulations to assure that Malaysian corporation have the right governance mechanism in place. The Malaysia Code of Corporate Governance (MCCG) was launch in 2001. The code codified the principles and best practices of good governance and described optimal corporate governance (CG) structures and internal processes that a business entity should uphold. About the same period, the Minority Shareholder Watchdog Group (MSWG) was established as a government initiative to protect the interests of minority shareholders through shareholder activism. It hopes to discipline the capital market and to encourage good governance amongst public listed companies and increase the shareholder value. In a different platform, the government has also established the National Integrity Plan (NIP) and Malaysia Institute of Integrity (IIM) with the aim of achieving economic progress that is consistent with good personal values and ethical corporate conduct.

The Malaysian government, as any other governments in the emerging economy, participates actively in the operation of business entities. Even after the privatization exercise, the government has continued to have significant role and ownership in the private companies. With a number of rules and regulations implemented by the government to enhance corporate governance measure, this study expects to find high level of CG mechanisms in firms connected with the government. Specifically, this paper examines the level of corporate governance mechanism implemented in companies connected with the ruling government and whether its participation has any implication in the companies’ value. The findings of study would give an insight of the nature of governance mechanism specifically in firms connected with government and how element of governance can be improved in these firms.

Brief Biography of the Speaker: Romlah Jaffar starts her academic career at the Faculty of Economics and Management of Universiti Kebangsaan Malaysia (UKM) in 1991. She obtained her Bachelor of Science (Accounting) from San Diego State University, MBA (Accounting) and DBA (Accounting) from Universiti Kebangsaan Malaysia. Her main research areas are in social and environmental reporting, quality of reporting and corporate governance. Romlah is also an editor for a number of internationally recognized academic journals, inside and outside of the country. Currently, Romlah involves in a few research projects awarded by the Ministry of Higher Education of Malaysia, UKM, Malaysian Institute of Certified Public Accountants (MICPA) and International Association for Accounting Education and Research (IAAER). Additionally, Romlah contributes in the development and evaluation of accounting program in the country. She has been appointed by Ministry of Higher Education as a main committee member for the evaluation and development of current Bachelor of Accounting curriculum for institute of higher learning in Malaysia (Hala Tuju 2). She is also a panel of Malaysia Qualification Agency (MQA) that actively involved in the accreditation of accounting program in private institution of Malaysia.
Survey on Implementation of Internal Shariah Compliance Function in Malaysian Islamic Banks and Takaful Companies

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Abstract:-The Central Bank of Malaysia has issued Shariah Governance Framework for Islamic Financial Institutions (hereinafter referred to as “SGF”) which was effective starting from January 2011 brought a new dimension and evolution phase in Malaysian Islamic Banking. The issuance of SGF shows the commitment of regulator in enhancing Shariah governance of Malaysian Islamic financial institutions. One of the requirements stipulated in SGF is the requirement for Islamic Financial Institution (hereinafter referred to as “IFI”) to have a robust Shariah compliance function which encompasses ShariahSecretariate, Shariah Review and Shariah Audit, Shariah Risk Management and Shariah Research functions. This study is intended to examine the approaches conducted by the Malaysian Islamic banks in implementing those functions. The finding of this study contributes towards establishing the effective mechanism in implementing Shariah Compliance function which in return beneficial to the industry.

Key-Words: - Islamic banking, takaful, Islamic financial institutions, shariah governance, shariah compliance

1 Introduction

Shariah compliance is the most significant feature for any Islamic bank which differentiates Islamic banks with those which are not. At early stage of Islamic banking industry in Malaysia, in order to ensure Shariah compliance of the bank, generally focus was more given towards the establishment of Shariah Committee for each Islamic bank. The establishment of ShariahCommitte is a statutory requirement to all banks and takaful operators which offer Islamic banking and takaful products. However, with the coming of SGF 2010, the emphasis is also put on the internal Shariah compliance function that must be established in the IFIs.

The SGF which was introduced in October 2010 was circulated to all Islamic Banks and Takaful Institutions in Malaysia and shall take effect 1st January 2011. It is the duty of the IFI to adopt the framework and to improve their Shariah governance structures accordingly. The objectives of the SGF, as stated in the Guideline, are to establish a robust Shariah governance structures of IFIs; to provide a comprehensive guidance to the board, Shariah Committee and management of the IFI in discharging its duties in matters relating to Shariah; and to outline the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research.

Shariah compliance function is one of the instrumental aspects in Shariah governance of Malaysian Islamic banks. The function as explained in SGF comprised of Shariah Review and Audit functions, supported by Shariah Risk Management
control process. It is stated in SGF Principle 7: “There shall be a robust Shariah compliance function, comprising review and audit functions, supported by risk management control process and internal research capacity”. The main focus of this proviso is that the IFIs should have established four main internal Shariah compliance functions that are shariah review, shariah audit, shariah risk management and shariah research in order to ensure good shariah governance practice in the institutions. The brief explanation on those functions are as follows:

(a) Shariah Review function refers to regular assessment on Shariah compliance in the activities and operations of the IFI by qualified Shariah officer(s), with the objective of ensuring that the activities and operations carried out by the IFI do not contravene with the Shariah.

(b) Shariah Audit refers to the periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI’s business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance.

(c) Shariah Risk Management is a function to systematically identify, measure, monitor and control of Shariah non-compliance risks to mitigate any possible of non-compliance events.

(d) Shariah Research refers to the conduct of performing in-depth research and studies on Shariah issues, including providing day-to-day Shariah advice and consultancy to relevant parties, including those involved in the product development process(es).

The objectives of the study are to examine the internal Shariah Compliance functions practises in Malaysian Islamic banks and Takaful companies. This study is carried out through the collection of data to obtain the percentage from a sample. The target groups of this study are Shariah Committee (34.5%), Management (35.6%) and Shariah Officer (20.9%) from Islamic banks (79.5%) and Takaful companies (20.5%).

The respondents’ perception on the above issues was measured using 5 point Likert scale (1=strongly disagree to 5=strongly agree). The level of agreement was measured by the percentage of each level of agreement. scores 1 (strongly disagree) to 5 (strongly agree). The data were collected and analyzed using the Statistical Package for Social Sciences (SPSS) software version 16.0 and Microsoft Excel. Descriptive analysis is used to determine the number of frequencies and percentages. In addition, researchers also use multiple response analysis for the related questions.

2 Number of Shariah Officers Performing Shariah Compliance Functions and Their Qualifications

The provisions in SGF provide for the requirement of the effective Shariah compliance functions but does not provide any specific or minimum number of shariah officers performing the shariah compliance functions. The respondents were asked on the numbers respondents were asked as to the number of Shariah officers performing Shariah related function and whether the officers have Shariah qualifications. The response is 35.2% of the IFIs have between 4 to 6 (35.2%) shariah officers, 25.0% have between 1 to 3 shariah officers and 20.0% of the IFIs have between 7 to 10 shariah officers performing shariah related functions. Only few of them (18.2%) have more than 11 people and 1.1% did not respond (Fig.1). The numbers of officers performing Shariah related function which have Shariah qualification can be seen at Fig.2. From the figure, overall 81 – 100% officers that performing Shariah related function which also have Shariah qualification that varies from Diploma, Bachelor degree, masters and professional courses that is shown in Table 1.

3 Dedicated Shariah Officer performing Shariah functions

To ensure that the IFIs are effective in ensuring shariah compliance in their operations, the SGF requires that they must have dedicated officers performing the internal Shariah compliance functions. The results of the survey shows that most of the institution dedicated Shariah officer for Shariah secretariat (96.6%), Shariah review (89.7%) and Shariah research (86.2%). Less than half of the respondents dedicated Shariah officer for Shariah audit (49.4%) and Shariah risk management (44.8%). (see Fig.3).
Fig. 1 Respondents’ distribution on the number of Shariah officer performing Shariah related function

Fig. 2 Respondents’ distribution on the number of Shariah officer performing Shariah related function and possess Shariah qualification

Table 1 The numbers of qualification based on the number of Shariah officer that performs Shariah related function

<table>
<thead>
<tr>
<th>No. of Shariah officer</th>
<th>Diploma in Shariah</th>
<th>Shariah Degree</th>
<th>Master in Shariah</th>
<th>Professional Courses</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3</td>
<td>No. 1</td>
<td>21</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>% 1.14%</td>
<td>23.86%</td>
<td>2.27%</td>
<td>5.68%</td>
<td>1.14%</td>
<td>34.09%</td>
</tr>
<tr>
<td>4 to 6</td>
<td>No. 3</td>
<td>30</td>
<td>15</td>
<td>12</td>
<td>3</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>% 3.41%</td>
<td>34.09%</td>
<td>17.05%</td>
<td>13.64%</td>
<td>3.41%</td>
<td>71.59%</td>
</tr>
<tr>
<td>7 to 10</td>
<td>No. 0</td>
<td>18</td>
<td>6</td>
<td>11</td>
<td>3</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>% 0.00%</td>
<td>20.45%</td>
<td>6.82%</td>
<td>12.50%</td>
<td>3.41%</td>
<td>43.18%</td>
</tr>
<tr>
<td>11 to 15</td>
<td>No. 0</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>% 0.00%</td>
<td>9.09%</td>
<td>9.09%</td>
<td>5.68%</td>
<td>1.14%</td>
<td>25.00%</td>
</tr>
<tr>
<td>More than 15</td>
<td>No. 3</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>% 3.41%</td>
<td>9.09%</td>
<td>4.55%</td>
<td>9.09%</td>
<td>2.27%</td>
<td>28.41%</td>
</tr>
</tbody>
</table>
4 Shariah compliance manual on Internal Shariah Compliance functions

Another significant factor to measure the IFIs commitment on performing the shariah functions is to examine whether the IFIs have Shariah Compliance Manual which incorporated all those functions. In is interesting to note that majority of IFIs in Malaysia have included the related functions in their respective manual, as shown in Figure 4.

Most of them use Shariah compliance manual for product development (83.5%) and Shariah review (85.9%) while 69.4% respondents use it for procedure for fatwa/resolution. 62.4% of the use the Shariah compliance manual for Shariah audit while 56.5% and 58.8% respondents use for Shariah risk and Shariah pronouncement respectively.

5 Shariah Review and Audit

Shariah Review and Audit are significant process to ensure Shariah compliance operations of the IFIs. To ensure that Shariah Review and Audit takes place effectively, the IFIs were asked few questions such as who conduct Shariah review and audit; frequency of the exercise and whether they have proper planning for such an exercise.

Most of the respondents said that the Shariah officer is the staff who conducts the Shariah review (86.0%). Only 26.7% respondents said that the internal auditor while 7.0% external auditor and consultant respectively conduct the review (see Fig.4). The respondents’ distribution on the person who conducted the Shariah audit are shown in Fig.5.

Out of them, 87.5% of respondents have specific planning or schedule for the Shariah review exercise (Fig.6) while the frequencies distribution of the exercise conducted are shown in Fig.7. Similarly, most of the respondents (89.6%) have specific planning or schedule for Shariah audit exercise and the frequencies of exercise conducted can be seen in Fig.8 and Fig.9.
Fig 4 Who conduct Shariah Review and Audit

Fig 5 Respondents distribution based on the person conducted Shariah audit

Fig 6 Respondents distribution based on the specific planning for Shariah review exercise

Fig 7 Respondents distribution based on the frequency of the exercise conducted
6 Shariah Research

The essence of Shariah Research is to ensure that in every decision made by the IFIs, proper research has been conducted to study on the overall shariah principles applicable. The respondents were asked whether their institutions provides sufficient research to facilitate Shariah decision making, whether the research conducted is effective and whether the institutions provides conducive research function. The response on these questions are very positive. Table 2 is the summary of respondents’ responses on these questions. Based on the responses; they strongly agree that there is sufficient Shariah research conducted to facilitate Shariah decision, research conducted by the Shariah research officers effectively assist the Shariah Committee to reach good decisions and that their institution has provided a conducive research function.

Effective research requires that sufficient or adequate research materials have been made accessible to the officers performing that function. The survey finds that IFIs provide adequate research materials and facilities such as Resource Centre (56.8%), AAOIFI standards (82.4%), BNM Shariah resolutions (94.6%), securities commission resolutions (83.8%), compilation of various international and local fatwas (62.2%) and other facilities and materials (14.9%) (see Fig.10).
Table 2 Respondents responses for the statement on effectiveness of Shariah Research function

<table>
<thead>
<tr>
<th>Statement</th>
<th>Median</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is sufficient Shariah research conducted to facilitate Shariah decision</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Research conducted by the Shariah research officers assist the Shariah Committee to reach good decisions</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Your institution has provided a conducive research function</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Fig.10 Respondents distribution based on the facilities and research materials

7 Conclusion
The survey finds that the IFIs have satisfactorily adopt the SGF requirements as regards to the internal shariah compliance functions. Sufficient adoption of these aspects and overall implementation of the SGF is expected to promote stakeholders’ confidence and the integrity of the Islamic financial institutions besides reducing Shariah non-compliance risks and subsequently contribute towards maintaining financial stability in the country.

References: