

Ijaber 2015

By Inten Meutia

WORD COUNT

4953

TIME SUBMITTED

23-JUN-2022 07:50PM

PAPER ID

87611916

DEVELOPING A SOCIAL MEDIA PRESENCE STRATEGY FOR AN E-COMMERCE BUSINESS SHARIA SUPERVISORY BOARD ROLE: A BEHAVIORAL THEORY PERSPECTIVE

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Abstract: IFIs have an obligation to ensure the compliance with the Sharia law for their products, services and operations. In this responsibility and in the aim of credibility and integrity, IFIs must establish their own Sharia board to ensure Sharia compliance of their business and to protect the rights of depositors and other stakeholders. IFIs employ SSB in order to complete a requirement. It can cause the absence of sufficient control and would make some difficulties for the SSB to carry the duties satisfactorily. This paper wants to take some steps toward a behavioral theory in addressing the factors influencing the implementation of SSB roles as an individual characteristic and in Sharia process. The development and conclusions of this paper as conceptual for describing the aspects of SSB roles in practice and SSB roles from behavioral perspective. A theoretical and extensively study of literature to bring out the objective of presenting the SSB roles underlying its specific behavioral perspective. The core characteristics for a particular pattern of SSB member's behavior are bounded rationality, satisfying behavior and problematic search, "routines" of decision-making, and political bargaining in the context of corporations as coalitions of stakeholders. Then, three aspect of broad process chosen to conclude SSB role performance to achieve Sharia compliance: cognitive conflict, effort norms, and use of knowledge and skills. Future research will be focused on the identification and analysis of different SSB roles, relevant to Sharia governance process in the IFIs. It also gives improvement to SSB effectiveness as a Sharia governance internal mechanism. This paper also might develop behavioral perspectives for a future research agenda on SSB and Sharia governance, and open the invitation for additional research and analysis on the topic formulated in this discussion.

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INTRODUCTION

Islamic financial institutions (IFIs) have passed through several milestones during the period of past three decades. The number of IFIs worldwide has increased from one in 1975 to over 300 today in more than 75 countries. They are focused not only in the Middle East and Southeast Asia, but are also developing in Europe and the United States. Nowadays, it is very important to construct on this great growth to make sure that this industry can maintain integrity and enhancing credibility to achieve a long-term prosperity. The primary objective of IFIs are to formulate and form a new financial system that protects *Ummah* in the effects of *Riba* (interest, usury), *Masyir* (gambling), *Gharar* (excessive uncertainty) and other types of demoralizing activities.

IFIs have an obligation to ensure the compliance with the Sharia law for their products, services and operations (Hamza, 2013). In this responsibility and in the aim of credibility and integrity, IFIs must establish their own Sharia board to ensure Sharia compliance of their business and to protect the rights of depositors and other stakeholders. This unique feature from IFIs, Sharia board holds the main roles as the gatekeeper in three main areas: ex-ante auditing, ex-post auditing and the calculation and payment of *Zakat* (Karim, 1990). Sharia board or known Sharia Supervisory Board (SSB)/committee perform certain functions such as directing, reviewing and supervising all products, services and activities of the IFIs in compliance with Sharia principles (AAOIFI, 2010).

Reviewing some concerns when the genuine morality of IFIs and the non-compliance of some products and services. The failure to comply the Sharia principles would give to Sharia risk and damage the credibility, integrity and reputation of the IFIs. The credibility, integrity and reputation of IFIs is linked to the influence of SSB as part of the internal governance structure of IFIs. The non-compliance activities and operations can be attributed to the passive role of the SSB in the Sharia governance structure (Hamza, 2013). Karim (1990) argued other issue related to the SSB is the lack of adequate control procedure and it will cause dissatisfaction of SSB duties.

However, Karim (1990) discussed that the nature of SSB duty is only play as an advisory board. They do not have an obligation and authority to accomplish the task and implement their decisions. IFIs employ SSB in order to complete a requirement. It can cause the absence of sufficient control and would make some difficulties for the SSB to carry the duties satisfactorily. Those discussions of the issues are not mutually exclusive and they will complement one another. It is, certain aspects of SSB roles are more likely to be universal.

This paper focuses on the evaluation of SSB roles, which take place in parallel with the development of different Sharia corporate governance and perspectives.

The main research question we pose in this study is behavioral approaches emphasize as the key of SSB roles. This paper wants to take some steps toward a behavioral theory in addressing the factors influencing the implementation of SSB roles as an individual characteristic and in Sharia process. The paper also contributes to research and literature on SSB and IFIs in several ways.

SHARIA SUPERVISORY BOARD ROLES

A Sharia supervisory board is an independent panel of expert in *Fiqh Al-Mua'malat* (Islamic commercial jurisprudence). SSB members may come from other specialist that has expertise in *Fiqh Al-Mua'malat* and Islamic financial institutions. SSB members have an obligation to direct, review, and supervise all the products, services, and activities of the IFIs to comply with the Sharia law (AAOIFI, 2010; IFSB-10, 2009).

The unique feature from the IFIs is SSB have the main role as a gatekeeper of Sharia compliance. The non-compliance can give a result to the passive roles of the SSB in the Sharia governance process (Hamza, 2013). The failure to meet the Sharia compliance would rise to Sharia risk and damage the credibility and the reputation of the IFIs. The main role of the SSB focuses on the formulation of Fatwas and reviewing process aiming to provide a common position in economic, finance, and banking.

The SSB becomes an assistant for Sharia review, monitors, and control the compliance of all product, activities and services of IFIs with Sharia law (Grais & Pellegrini, 2006c). SSB has a vital position and tasks to directly involve in Sharia governance process with board of directors (BoD) and managers. SSB have some pressure, such as the commercial reason and to preserve the IFIs reputation. The religious factor is the main reason for IFIs compared to the conventional system. Hence, in the aim to protect the credibility and integrity, the SSB will not give the agreement to activities that are moving away from Sharia law.

When the role of SSB become a concern, Hassan & Chowdhary (2004) described that SSB have an important and multi-dimensional role associated to the relation between the IFIs and its clients, the IFIs and its depositors, the IFIs and shareholders, and also the role of management. SSB have a responsibility to keep a close vigil on the entire activities and operations of the IFIs ensuring the compliance of Sharia law. Significantly, SSB have a double obligation as both advisory and supervisory to ensure that IFIs strictly comply with Sharia law in their products, activities and operations.

As part of internal governance process in the IFIs, SSB have to do some review and assist the product development to ensure the compliance of Sharia law. New products and services would be launch after getting *Fatwa*(Sharia opinions) from

SSB. This stage is called as the ex-ante process (Onagun & Mikall, 2013). After issuance Fatwa, SSB have to do the ex-post process. SSB supervise ISRU (internal Sharia review unit) and ISAU (internal Sharia audit unit) in this process. ISRU will be recorded and reported to ensure that all the activities and transactions in IB comply with Fatwa issued by SSB and ISAU usually make a report to the Audit Committee in IB (IFSB-10, 2009).

LITERATURE REVIEW

A Behavioral Theory of the Firm is developed by Cyert and March (1963) discussed to understand a board process become a key factor of board effectiveness and to explain the way in which decisions are made (Ees et al., 2009). Behavioral perspective was introduced in the late 1990s with the first step in the development for the board effectiveness. Some authors concluded that the importance of understanding internal board process (Pettigrew & McNulty, 1998; Huse et al., 2009; Ees et al., 2009). Board effectiveness is related to socio-psychological factor that influence decision-making process.

Several authors pointed out that board processes influence a board role performance. First is cognitive conflict as the level of dispute among board members. Then, effort norms are assessed on the basis of board members' degree of activity in presenting their roles. Finally is the use of the knowledge and skill of the board members that refers to the ability to apply their performance (Forbes & Milliken, 1999; Huse, 2005; Zona & Zattoni, 2007; Ees et al., 2008; Babic et al., 2011).

Some extant literature make a differentiation between two groups from individual characteristics such as background diversity and board members behavioral characteristics related to the board role (Babic, Nikolic, & Eric, 2011). Milliken & Martins (1996) proposed that a factor influences group and team performance is background diversity. It is relevance with an understanding from different personal characteristics in the board members performance as a group like professional education, knowledge, and skills. Moreover, some characteristic of personal demographic i.e., race, gender, nationality, education, and functional experience are also included as affecting factors in board members as a team (Babic, et al., 2011).

Many authors have a parallel conclusion for the further development of the behavioral perspective. They concluded that board members' background diversity become a characteristic that indicate the degree of difference in experience and competence and it can gives an influence for the level of success in board role performance. Skill and knowledge-based diversity could present a positive form to the board members effectiveness related to possible increased creativity and innovation in problem solving and decision-making. However, there is a negative

effect when board members cannot work together as a team to resolve issues. Different influences of board diversity on board members can give a positive and negative correlation variable due to type of board role (Minichilli, et al., 2009a; Minichilli, et al., 2009b; Babic, et al., 2011).

Board effectiveness is also related with the board members characteristics. According to LeBlanc & Gillies (2005) that there are some core characteristics laying the foundation for board member behavior included: persuasive/unpersuasive behavior, tendency towards disagreement/consensus, and individual/collectivism. Furthermore, Ees, et al. (2009) gathered from the *Behavioral Theory of the Firm* that key concepts of behavior of board members contain: bounded rationality, satisficing behavior and problematic search, "routines" of decision making, and political bargaining in the context of corporations as coalitions of stakeholders.

METHODOLOGY

This paper deals with the behavioral perspective of SSB roles. SSB as a gatekeeper has an obligation to ensure all the activities operations in IFIs for complying with the Sharia law. The non-compliance in activities and operations can attribute to the passive role of SSB in the Sharia governance structure. The development and conclusions of this paper as conceptual for describing the aspects of SSB roles in practice and SSB roles from behavioral perspective. A theoretical and extensively study of literature to bring out the objective of presenting the SSB roles underlying its specific behavioral perspective.

BEHAVIORAL PERSPECTIVES AND SSB ROLES

1. Roles of SSB Members from Individual Characteristics

IFIs have an obligation to comply with the Sharia law. SSB has an exclusive role as a gatekeeper to ensure all the activities, operation, and products in IFIs comply with the Sharia law. SSB as an independent body that is specialized in *Fiqh al-Mua'amalat* has the most obvious and intermediate purpose of Sharia supervision in IFIs. The role of SSB is quite similar to the company auditors. However, SSB has to supervise and confirm the products, activities, and operations are in compliance with the Sharia law. SSB does not have any direct influence on the decisions to manage the management. In summary, SSB roles can be categories into: advisory, compliance, and audit role (Toufik, 2015).

According to behavioral perspectives, the core characteristics for a particular pattern of member behavior are bounded rationality, satisfying behavior and problematic search, "routines" of decision-making, and political bargaining in the context of corporations as coalitions of stakeholders (Ees, et al., 2009). The first

pattern is a bounded rationality that refers to the notion that decision makers in their skill to process information and solve complex problems in organizations (Simon, 1955; March & Simon, 1958; Ees, et al., 2009). This pattern does not necessarily have a meaning that actors do not attempt to maximize value but only when they are unable to do so due to control on their decision-making competencies. According to Foss (2001) the scope for bounded rationality includes cognitive biases and incompetence as explanations for inefficient and ineffective decision-making. Greve (2003) showed that bounded rationality is costly, and occupying rational rules in addressing issues and problems with great complexity lead to great cognitive effort. In the IFIs, it is mandatory requirement to ensure that its aims, operations, services, and products are in compliance with Sharia law. SSB has a compliance role to maximize their value in their decision-making competencies. As far as SSB compliance role, their members must be those who are equipped the level of being learned and expert in *Fiqh Al-Mu'amalat* (Abdullah, et al., 2014; IFSB-10, 2009). The study in *Fiqh Al-Mu'amalat* is very important for SSB members due to avoid cognitive biases in addressing Sharia issues and problems.

The second pattern that has been addressed is satisficing behavior and problematic search. This pattern implies about actors tend to admit alternatives or judgments that are "good enough" based on their most important current needs rather than searching best explanations. The notion of satisficing behavior only concerns with immediate problems and short-run solution (Ees, et al., 2009). SSB members perform *ijtihad* (discover the law from texts of valid interpretation) as well as the skill to formulate independent opinion and judgments (Abdullah, et al., 2014; Kamali, 2006). The exercise of *ijtihad* in the modern transaction could be have indirect instrumental about disagreement about alternatives solutions and judgments among SSB members (Bakar, 2002). *Ijtihad* will be performed to find solution matters and judgments using three possible approaches: the rigidity and inflexibility, the excessive flexibility, and moderate approach in arriving at Sharia matters and decisions (Abdullah, et al., 2014).

The third pattern has brought to the front is "routines" of decision-making. "Routines" have been denoted to performance programs or standard operation procedures. "Routines" need the experience, knowledge, beliefs, values and capabilities of the organization and its decision makers to be understood. The implication for this pattern is an important source of control and stability, which both support and bound organizational action (Ees, et al., 2009; Cyert & March, 1963; March & Simon, 1958). SSB members have an obligation to participate in various seminars, workshops and meetings of experts in *Fiqh Al-Mu'amalat* to present and debate existing and new Sharia pronouncements and resolutions.

SSB also participates in other similar events on banking and finance, *Takaful*, capital market, etc. that can expand their Sharia domains for their knowledge and understanding in the IFIs (Abdullah, et al., 2014; IFSB-10, 2009). It is very clear for SSB obligation to supply form of guarantee and advocacy that money being invested by the consumers is duly used in compliance with Sharia rulings and *haram* (forbidden) elements are eliminated. On the other hand, SSB members have indirect authority on the decisions of the managing board. In the case of non-Sharia compliant, SSB only highlights different methods to solve the problem and the managing boards choose from different alternatives and judgments (Toufik, 2015). There are two non-governmental organizations that mainly contribute to the Standard Operation Procedures (SOP) for the SSB, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which set up Sharia acceptable accounting and auditing standards, and the Islamic Financial Services Board (IFSB) standard that includes guidance on key elements Sharia governance process of IFIs.

The fourth pattern of SSB individual characteristic is political bargaining in the context of corporations as coalitions of stakeholders. From this perspective, organization can be illustrated as complex political systems with actors organized in coalitions, and sub-coalitions. Coalition partners are needed to have distinct preferences and objectives, which make negotiation and bargaining among members common practice. These coalitions can affect coalition members' decisions, goal setting, and problem solving processes. Goal conflict of organizational actors can be solved through political bargaining rather than through objective arrangement by economic incentives (Ees, Gabrielsson, & Huse, 2009; Cyert & March, 1963). The most obvious purpose of SSB in IFIs is to give a guarantee for Muslim consumers and clients that the products, services, and operations being offered are acceptable from an Islamic law and is therefore legitimate to them. Even though, IFIs as an organization has a complex political system, SSB as an extra layer of governance process has an obligation to bring transactions under strict conformity with the Islamic law. It is very clear that SSB is established under a specific statute of an IFIs accompanied by the main purpose of ensuring that the operations, services, and products are not violating any Sharia law. The operation procedures for SSB direct about a quorum for meeting, frequency of meeting and attendance, and contribution and allocation time and efforts to accomplish the Sharia decision-making. In achieving Sharia law and principles, *Fiqh Al-Muamalat* becomes guidance for a matter of professional judgment of members of SSB. Therefore, the members of SSB should seek to reach consensus in arriving at Sharia decision-making. When consensus cannot be reached, any decision might be taken on the basis of a simple majority (IFSB-10, 2009).

2. SSB Characteristics Related to the Sharia Process

Sharia process refers to the Sharia compliance as a mandatory requirement on the IFIs to ensure that its aim, operations, services, and products are in line with Sharia law. "Good" Sharia process pertains to healthy and severe discussion on Sharia issues and problems that Sharia decisions can be reached and supported. For this happen, SSB must be those who are characterized with not just general knowledge of Sharia or other disciplines, but more importantly have acquired with a specialized level of being learned and expert in *Fiqh Al-Muamalat* (Abdullah, et al., 2014; IFSB-10, 2009). Thus, there are three aspect of broad process chosen to conclude SSB role performance to achieve Sharia compliance: cognitive conflict, effort norms, and use of knowledge and skills (Babic, et al., 2011; Zona & Zattoni, 2007; Huse M., 2005; Forbes & Milliken, 1999).

First aspect of SSB process is cognitive conflict. According to Jehn & Mannix (2001) defined that cognitive conflict as awareness on the parties of discrepancies or incompatible wishes. It is also addresses the degree of disagreement among board members. Cognitive conflict relates to the performance of tasks due to different viewpoints, ideas, and opinions. In this situation, SSB might have to understand at a company's objectives and strategies through modification or improvement. SSB must assure that IFIs has obligations to compliance with Sharia law, human service, economic development, and social integrity. The presence of cognitive conflict among SSB members performs as a reminder to board management about their power structure of the SSB and not be simply as "rubber stamp". Therefore, evaluating alternatives and more careful examination of options will improve the quality of Sharia decision-making.

Then, the second aspect for SSB characteristics in-group process is effort norms. Effort norms are addressed the shared belief for groups performance of a task. The outcome is motivation and the strength of an individual or total cognitive behavior for the target tasks (Wageman, 1995). Effort norms are also defined as an evaluation of degree of activity in performing board roles. The level of effort norms depends on the boards' belief and expectation of being properly rewarded for their accomplishment (Babic, et al., 2011). The amount of time exerted has often been taken to represent the level of effort norms by SSB. According to IFSB-10 (2009) that SSB members are expected to contribute and allocate adequate time and efforts to discharge their duty. SSB members who put in sufficient for meetings tend to perform better. Before a meeting is conducted, a proper presentation of request for Sharia decision-making must be prepared. This requirement is needed to the nature of the SSB's duties and tasks.

The final aspect for this SSB characteristic is the use of the knowledge and skills. The use of skills and knowledge refers to the ability to apply in the board

role performance. They are also related as a part of the cognitive concept (Babic, et al., 2011). According to Cohen & Bailey (1997), Weick & Roberts (1993), and Hackman (1983) that the use of knowledge and skill can minimize the process losses among members, encourage members to cooperate and subject members to joint action. In this case, SSB need to use their general knowledge of Sharia or other disciplines, on the other hand, they must use their specialization of being learned and expert in *Fiqh Al-Muamalat*. The Sharia decision-making processes are made through the exercise of collective *ijtihad*. SSB performs *ijtihad* their knowledge of the sources of Sharia to formulate independent opinion and judgment (Kamali, 2006).

CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

As part of internal governance process in the IFIs, SSB have to do some review and assist the product development to ensure the compliance of Sharia law. This paper focuses on the evaluation of SSB roles, which take place in parallel with the development of different Sharia corporate governance and perspectives. The main research question is behavioral approaches emphasize as the key of SSB roles. This paper wants to take some steps toward a behavioral theory in addressing the factors influencing the implementation of SSB roles as individual characteristic and in the Sharia process.

The unique feature from the IFIs is SSB have the main role as a gatekeeper of Sharia compliance. SSB does not have any direct influence on the decisions to manage the management. According to behavioral perspectives, the core characteristics for a particular pattern of member behavior are bounded rationality, satisfying behavior and problematic search, "routines" of decision-making, and political bargaining in the context of corporations as coalitions of stakeholders (Ees, et al., 2009).

Sharia process refers to the Sharia compliance as a mandatory requirement on the IFIs to ensure that its aim, operations, services, and products are in line with Sharia law. SSB must be those who are characterized with not just general knowledge of Sharia or other disciplines, but more importantly have acquired with a specialized level of being learned and expert in *Fiqh Al-Muamalat* (Abdullah, et al., 2014; IFSB-10, 2009). Thus, there are three aspect of broad process chosen to conclude SSB role performance to achieve Sharia compliance: cognitive conflict, effort norms, and use of knowledge and skills (Babic, et al., 2011; Zona & Zattoni, 2007; Huse, 2005; Forbes & Milliken, 1999).

Future research will be focused on the identification and analysis of different SSB roles, relevant to Sharia governance process in the IFIs. SSB members are representatives of the government, stockholders, consumers, or even Islamic

financial industry. Addressing these issues will enhance the overall understanding of SSB roles, will enable empirical research of factors that influence SSB roles. It also gives improvement to SSB effectiveness as a Sharia governance internal mechanism. This paper also might develop behavioral perspectives for a future research agenda on SSB and Sharia governance, and open the invitation for additional research and analysis on the topic formulated in this discussion.

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