Management Control Systems, Fairness, and Trust: Evidence from Malaysian Islamic Bank

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Abstract
The purpose of this paper is to describe and explain management control mechanisms in Islamic banking that incorporates fairness and trust concepts. The theoretical part of the study builds on ideas of Simons’ (1995) control framework; and trust and fairness from organizational justice theory. Qualitative data were gathered through interviews, and review of company documents. Findings indicate that, while formal control structure in the form of budgetary control and KPIs that linked to reward constitute significant roles, other control mechanisms and practices are at work in implementing the bank’s strategy at operational level.

Introduction
The broad objective of Islamic economies is to establish socio-economic justice. And “in order to achieve this objective, [any particular] Islamic bank will have to establish principles of justice in the areas of trade and commerce, industry, distribution of wealth, financial transactions and overall economy” (Financial Express, Oct 2006). At the micro level, it is imperative that Islamic banks incorporate the principle of justice in their functions and practices. It is also in line with the view of Central Bank of Malaysia that “the foundations of an Islamic banking system must also reflect the socio-economic justice and values in Islam, as well as must be Islamic in both substance and form”.

On the one hand, most studies on Islamic banking only focus on the technical aspects of product offerings. That is, whether they are shariah compliant1 or not. However, little has been researched on the management practices, in particular, the management control mechanisms in Islamic organisations. On the other hand, control systems are mostly studied from the perspective of top-management, in particular how it allows them to monitor whether given objectives have been achieved. However, little is known about types of control mechanisms and how they are used at the operating level. This study investigates control systems at branch-level operations, closely connected to the specifics of particular operational practices. Moreover, at operational level the interactions with customers are closed and direct, thus, signify its importance. Drawing on evidence from a field study, this paper explores some of the ways in which one bank sought to develop broader framework of management control that incorporates fairness and trust particularly through its value-driven practices. The goal is to provide understanding of how organizational values might apply in various operational contexts. Specifically, this paper sought to: (i) describe management control system (MCS) mechanisms used at grass-root level of an Islamic bank, (ii) explore how fairness notion in relationship with customers manifests in banking activities, and (iii) examine how this notion of fairness is formalized in routine procedures.

1 Shariah compliant product is one that follows Islamic law with respect to its introduction. The bank has its Shariah Committee (panel of religious scholars), who meet regularly to vet the acceptability of new products and services.
This report is part of a larger project that uses survey questionnaire, interviews, and archives for the data. It presents findings based on interviews conducted with 10 branch managers and a CEO of an Islamic bank in Malaysia; and companies’ documents in the form of annual reports, extracts of branch monthly report, branch manager’s KPI-based evaluation sheet, staff annual appraisal form, and bank’s bulletin.

In order to provide guidance to inform explanations of the research phenomena about control systems, we build on the framework of Simons (1995). First, because this framework conceptualizes the issue that is central to this study, that is the control issues. Second, because this framework helps to integrate beliefs systems which involve values as part of a broader control systems. Third, although Simons offers this initial suggestion about belief systems as one of the control levers in his proposed strategic control framework, this concept is not pursued in details as to how belief system could be manifest in practice. This study uses notions of fairness and trust to represent some important organizational values that could be used to manage employees’ attitudes and behaviour in pursuing organizational strategy and objectives. Fairness and trust will be examined from organizational relationships with employees and customers.

Islamic Banking Philosophy

The relationships between Islamic banks and their customers, both as depositors and borrowers, are different. Unlike conventional banks, Islamic banks view their customers as partners regardless of being depositors or borrowers. On the one hand, when a depositor deposits a certain amount of money in an Islamic bank, both parties enter into a contract of using the money in productive investment. There is no predetermined rate of return promises by the Islamic bank to the depositor. Instead, both parties agree to a certain ratio of profit and loss sharing. On the other hand, when an Islamic bank provides (or entrusts, rather) capital to an entrepreneur it is based on equity contract to the financing of productive economic activities. In this relationship, the Islamic bank may or may not involve in the decision makings of the activities depending on the principle used in the contract – mudharabah or musharakah.

In discharging the duties as per contract, Islamic banks are expected to exercise within the Islamic laws or shariah. Among others, the shariah prescribes, in any investing and financing activities Islamic banks should ensure:

1. the absence of interest-based transactions
2. the avoidance of economic activities involving speculation
3. the avoidance of involvement in business which contradict the Islamic value pattern

It is from the profit-sharing feature of Islamic financial transactions that imposes a high level of disclosure in the financial contract. Thus, transparency represents a basic tenet underlying all Islamic financial transactions. The accountabilities of the respective parties involved in the transaction are clearly defined in the contract. This transparency also provides a strong incentive for Islamic financial institutions to appropriately manage risks. There is an inherent obligation on Islamic financial services providers to meet the appropriate standards of transparency. The focus of Islamic investment also
not only involves riba free activities but also extends to include issues related to ethical values and fair trade.

**Fairness and Trust**

In normative Islam, justice or fairness is tied to individual’s faith. This is clearly stated in Qur’an. “Be just! For justice is the nearest to piety” (Qur’an, 5: 8). Islam as a religion that emphasizes justice would certainly prescribe the same value to be practised in all other social dealings like business. Moreover, all Muslims are brothers and spiritually equal in the God’s eyes. In the context of organization, distributive justice is concerned with the fair allocation of resources among its diverse members. What constitutes fair allocation typically takes into account both the total amount of resources (or rewards) to be distributed and the distributing procedure. Thus, for fairness to exist distributive justice and procedural justice have to be carried out. However, as noted by Elovanio, Kivimaki, and Helkama (2001), in organizational justice research element of the quality of interpersonal treatment associated with decision making is also involved. This notion is termed as interactional or relational justice (Greenberg, 1990; Shapiro, Sheppard, and Cheraskin, 1992; Shapiro & Brett, 1993). According to Greenberg (1990) relational justice refers to treating individuals with politeness and consideration. He notes that there are factors that go beyond formal procedures which could influence perceptions of procedural justice.

Customers who deal with Islamic banks have some degree of expectation that the financial transactions are in conformity with Islamic law, the shariah. This is a form of trust that they have towards Islamic bank. Trust in this sense entails responsibility (Flores & Solomon, 1998) on the part of Islamic bank. And to exercise this duty responsibly, it is natural that Islamic bank must have some form of control structure and mechanisms in place. Mayer et al. (1995) develop a useful model of trust where they differentiate trust from factors that contribute to trust. This framework construes factors contributing to trust in the form of beliefs about another party’s ability, benevolence, and integrity. These elements of trustworthiness (as precursor of trust) are the predominant determinants of trust. Trust emerges based on ability of trustee that the trustor perceives as beneficial. Ability, they elaborate, includes skills, competencies, and characteristics that allow a party to have influence within some domain. Thus it encompasses both the formal and informal influence they are perceived to have in the organization, as well as their perceived competence and skills. Mayer et al. (1995) define benevolence, the second factor, as “the extent to which a trustee is believed to want to do good to the trustor, aside from an egocentric profit motive” (p. 718). Implicit in this definition is some attachment associated in the relationship between trustor and trustee whereby trustee is being helpful albeit without extrinsic reward in return. If an employee believes a manager cares about the employee's interests, the manager will be seen as having benevolence for the employee. Finally, integrity is defined as the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable. This subsumes not only that a manager espouses values that the employee or customer sees as positive, but also that the manager acts in a way that is consistent with the espoused values. Thus the consistency of the trustor’s past actions and the extent to which they are congruent with trustor’s words or promises will affect the degree of trustor’s integrity.
Although the cognition component is important, some researchers have argued that it is not sufficient for understanding trust phenomena (Fine & Holyfield, 1996). Kramer (1999) notes that other researchers (Bromiley & Cummings, 1996; Lewis & Weigert, 1985; McAlister, 1995, Tyler & Degoe, 1996) have argued for trust “to be conceptualized as a more complex, multidimensional psychological state that includes affective and motivational components” (p. 571). He observes that some scholars (e.g. Mayer et al 1995, McAlister 1995, and Tyler & Kramer 1996) have proposed that organizational trust must include the social and relational aspects of trust-related choices. Their arguments, Kramer observes, concentrate on the needs of trust “to be conceptualized not only as a calculative orientation toward risk, but also a social orientation toward other people and toward society as a whole” (p.573).

Along the same line, Rousseau et al. (1998) argue that, over time, repeated interactions between trustor and trustee will lead to the development of reciprocated interpersonal care and concern (McAllister, 1995). Emotion, they note, enters into the relationship as “successful fulfilment of expectations strengthen the willingness of trusting parties to rely upon each other” (p. 399). They also highlight that the citizenship behaviour from employees and the organizational support from employers are resulted from high levels of relational trust (Organ, 1990). It is well agreed, based on the work of many scholars, that trust can lead to cooperative behavior among individuals, groups, and organizations (e.g., Axelrod, 1984; Gambetta, 1988; Good, 1988; Mayer, Davis, & Schoorman, 1995; McAllister, 1995).

It is important that Islamic banks should carefully give attention to the relationships they have with employees and that with customers. Given the number of players in Islamic banking industry, employees can, and often will, switch employers relatively easy. And given the homogeneity of products offered in the market, customers too can easily switch for their choices.

**Simons’ Levers of Control Framework**

Simons’ (1995) ‘levers of control’ framework addresses control issues of an organization using four different levers. The first lever, a beliefs system, can guide the creative process of exploring new opportunities by controlling the core values through which organization can inculcate widely shared beliefs. The second lever, a boundary system, plays a limiting role of circumscribing the territory where the company seeks new opportunities. The third lever, diagnostic control system, controls the critical performance measures of organization. And finally the fourth lever, interactive control system, encourages organizational learning and the process of developing new ideas and strategies. Through this lever strategic issues are addressed. The diagnostic use is the essential lever for implementing intended strategies with the focus on the measurement of those variables which represent the most important performance dimensions of a given strategy. Alternatively, the interactive use is ascribed high importance to the formation of emergent strategies since management attention is focused on any strategic uncertainties and dialogue is enforced throughout the organization. At operational level, branch managers are receiving information from top management and also sending information to the top. Table 1 summarizes the different role of control levers.
Table 1
Different role of control levers (Adapted from Toumela, 2005)

<table>
<thead>
<tr>
<th>Control Lever</th>
<th>Role</th>
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<tr>
<td>Beliefs Systems</td>
<td>To strengthen multiple values related to customers and employees.</td>
</tr>
<tr>
<td>Boundary Systems</td>
<td>To emphasize strategic boundaries and risks</td>
</tr>
<tr>
<td>Diagnostic control</td>
<td>To control that performance in critical success factors of strategy is acceptable.</td>
</tr>
<tr>
<td>Interactive control</td>
<td>To capture and pinpoint problems related to uncertainties</td>
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Research Methods
The larger project involves two Islamic banks. It is restricted to two banks mainly due to accessibility. The strategy we used was to get as many banks by contacting all. After searching the Central Bank of Malaysia website, 11 Islamic banks\(^2\) both locals and internationals that operate in Malaysia were recognized. An introductory letter including the purposes and requirements of this research was mailed to all banks before implementing the research. Initially six banks responded positively to discuss further on the research endeavour. But after continued discussions with banks’ representatives, normally by corporate communication officer, only two banks agreed to participate.

A ‘gatekeeper’ was used to bring the researcher in contact with other participants in the bank. For Bank M, the CEO has been approached first through formal writing and second through face-to-face meeting which lasts 40 minutes. The goal was to explain the purpose and method of the study, and participants that would be involved in. The meeting also used to conduct interview with the CEO. This formal approval from the top management is vital to ensure cooperation from other participants. Through the CEO a liaison officer has been assigned, who is also a head of corporate communication of Bank M, to support the researcher throughout the study.

Interview data were recorded, transcribed, documented and collated for each interview with branch managers. The interview with the CEO was not recorded but was transcribed based on researcher’s notes.

Empirical Findings and Discussion

Case: Bank M
Bank M is relatively a smaller Islamic bank based on its assets and network of branches. It commenced its operation on 1 October 1999 as a full-fledged Islamic financial institution that operates under the Islamic Banking Act (1983). A typical branch would only have 15 employees. Beside tellers staffed for normal banking operation at counters, it has only two to three executives who are in charge of sales and customer service. Bank M centralizes most of its operation to head office. For example, all financing approvals are done by the Retail Processing Centre, one of units under Credit Management Division, in head office. At branch level the activities are more toward identifying customers, getting correct documentation and giving recommendation. However branches are still responsible to identify, measure, and mitigate the credit risk in the credit appraisal process. It currently gives emphasis on the retail and consumer

\(^2\) As at the time of reporting the number has increased to 12 banks.
products and services. The bank has a network of 48 branches throughout the country on top of several service centres.

How do smaller bank control its strategy?

Against the backdrop of increasing competition, how does smaller bank like Bank M respond? Bank M tries to differentiate itself from other Islamic banks by trying to build an image that portrays Islamic teachings in all its activities. To this effect focus is given to its practices and arrangements through its employees at the branch level. As its CEO states, “We do not simply involve in providing Islamic financial products. We want to be an Islamic organization that is seen practising Islam in a right way”. The study reveals some interesting research findings with regard to strategy implementation and control mechanisms. There exists some “social regularities and patterns”. As with any form of action there are variations in the way these mechanisms are carried out. The study has found evidence on how different branch managers use control mechanisms to ensure targets are achieved and strategic priorities are implemented. Table 2 summarizes the control mechanisms used in Bank M at operating level.

### Table 2

<table>
<thead>
<tr>
<th>Control Mechanism</th>
<th>Description</th>
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<tbody>
<tr>
<td>Budget System (Feedback and Measurement-based System)</td>
<td>A traditional budgetary control widely used at branch level especially on getting sales (financing product targets) and deposit level.</td>
</tr>
<tr>
<td>Morning Meeting (Boundary and Belief Systems)</td>
<td>A daily meeting used to disseminate new information through written memoranda from upper-level management.</td>
</tr>
<tr>
<td>Aqad and Do’a (Belief System)</td>
<td>A formalized procedure that branch has to follow when dealing with customers.</td>
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</table>

**Budget system**

This is widely used by the bank at branch level especially on getting sales (financing product targets) and deposit levels. Some branch managers use the targets interactively by monitoring the financing targets daily through morning meeting as will be explained further in the following section. Some managers use budget diagnostically by reviewing it during monthly meeting. Bank M controls branches as profit centres. It uses traditional management control systems in particular budgetary controls through which every branch is ensured to achieve its targets (e.g. deposits level, financing products level etc.). Together these measures along with branch profit, non-performing financing (NPF)\(^3\), and compliance make up key performance indicators (KPIs) which are then used to evaluate branch manager and assistant branch manager performance that linked to reward (bonus payment and promotion). Table 3 summarizes the key performance factors used to evaluate branch performance. Staff employees, on the other hand, are evaluated by branch manager based on annual appraisal form which every staff must fill out before being rated by the branch manager. Although branch

\(^3\) Effective FYE2007, Bank M has adopted a more stringent classification policy on nonperforming financing, whereby financing are classified as non-performing and substandard when repayments are in arrears for more than three (3) months from the first day of defaults or after maturity date.
manager has no final say on staff promotion, his or her recommendation carries significant weight especially if the branch performs well.

**Table 3**
**Key Performance Measures (KPIs)**

<table>
<thead>
<tr>
<th>Performance Factors</th>
<th>Weight</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit Growth</td>
<td>20%</td>
<td>Includes savings, current, and investment accounts. More weight is given</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to outstanding balance than number of newly opened account.</td>
</tr>
<tr>
<td>Asset Growth</td>
<td>35%</td>
<td>Comprises personal financing (i.e. outstanding balance), house financing, and personal financing disbursement.</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>30%</td>
<td>Besides the branch bottom-line figure, outcomes to control staff overtime expense and to increase total fee-based income are also measured.</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>8%</td>
<td>Measures non-performing financing (NPF) level. This is intended to control good credit evaluation</td>
</tr>
<tr>
<td>Compliance</td>
<td>7%</td>
<td>This is an administrative control to ensure the number of application return due to insufficient documents is reduced.</td>
</tr>
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</table>

Meeting budgeted targets are very important to branch managers interviewed because they are closely linked to their performance appraisal. Thus, this feature of MCS is very much prominent in Bank M. In fact, through the internal information systems, upper level management can always monitor these measures of every branch. It is evidenced that the KPIs use for performance measurement are all financial related. Only a small percentage of 7% (refer Table 3 compliance performance factor) is given to physical measure in the bank’s main feature of MCS. Bank M uses budget controls to ensure branches deliver the right performance. Branch managers have targets to achieve in total and in breakdowns. While all managers interviewed give highly on the importance of achieving branch’s target, they also realize that support from each and every employee is important. Therefore there is behavioural issue involves together with formal control through budget systems. Branch profit is the performance measure that captures both revenue generating and expense controlling activities.

**Morning meetings**
Simons (1995) has defined MCS as “the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities” (p. 5). Morning meeting has been a normal practice in banks. It has been one of “formalized procedures and systems to maintain and alter” operations at branch. The main objective is to use it as avenue to disseminate current information from upper level management to branch level employees. However there are some variations in how branch managers make use of the meeting. These could be due to different backgrounds and experience of the branch managers. Some managers even chose to modify the frequency from daily to twice weekly.

Table 4 presents selected quotations that show how branch managers use morning meeting or tazkirah as a form of control. Conducting morning tazkirah is one of the tasks listed in the guidelines for branch manager of Bank M. This daily meeting is used
to disseminate new information through written memoranda from upper-level management. This includes changes in policies and procedures, new information on product offerings, and shift in product focus. They are used as means of coordinating and communicating strategic priorities dictated from the head office. In addition some branch managers use it to conduct training especially on communication skills and product knowledge. It is evidenced that these meetings are being used for learning to improve or change related work process. In this regard branch managers use the meeting to improve employees’ competency which is an essential characteristic in building customer trust. This is important because employees feel facilitated and motivated (Wouters & Wilderom, 2008). Some managers also use it as in-progress evaluation especially if it takes place after the end of every month. Finally, it also has been used to implement process improvement where complaint or mistake from the previous day is analyzed and discussed for others to learn and not to be repeated.

<table>
<thead>
<tr>
<th>Table 4 Morning Meeting/Tazkirah as a control lever</th>
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</thead>
<tbody>
<tr>
<td>The uses of morning meeting by Branch Managers</td>
</tr>
<tr>
<td>At branch level, we use morning meeting to give tazkirah (i.e. short talk) that reminds this values by telling what are the dos and don’ts.</td>
</tr>
<tr>
<td>Through tazkirah we include some of Islamic teachings, we read Yaasin every Friday evening and extend involvement to employees of other organizations. We hope these efforts would portray an image of Islamic organization in a true sense.</td>
</tr>
<tr>
<td>… [W]e have morning tazkirah in which we read certain [Quranic] verses and the manager also briefs on new circulars, direction or expectation. This is the additional values.</td>
</tr>
<tr>
<td>I use the morning briefing sessions to gradually change [the employees’] mindset. I touch it indirectly. I don’t use it to touch on performance. I only use the morning briefing session to comment on performance once a month.</td>
</tr>
</tbody>
</table>

Simons argues that control systems, when used interactively, guide attention of lower managers of the changing strategic importance in response to opportunities and threats. By paying frequent and regular attention to the issues addressed, top managers prompt operating managers to involve in face-to-face dialogue and debate, and motivate them to gather information. The outcomes of these practices are organizational learning is engendered, new ideas are stimulated, and new strategies emerge. Although Simons’ arguments are viewed from top management perspective, they are equally applicable to operating level management. It is clearly evidenced that at operating level, branch managers use morning meeting as form of control mechanism both diagnostically when they focus on budget progress; and interactively when making changes to strategic priorities and learning.

Although morning meeting is conducted frequently i.e. daily and has been used in various manners, as discussed earlier, it does not allow any debate, dialogue, discussion with upper level. Indeed, it is a one-way communication from top management to
direct attention and action of the operational level. Thus, it can be argued that morning meeting is not used in an interactive manner by the top level management.

This finding is consistent with Bruns and McKinnon’s (1993) study that reports informal information sourced through interpersonal communications such as face-to-face meetings “dominate other sources of information for day-to-day needs and remain important for longer term needs” (p. 94).

The do’a (prayer) and Aqad:
Maintaining asset quality is one of the critical factors measured by Bank M and any banks in general. The objective is to ensure good credit evaluation is done at branch level. To this effect, the operating managers are responsible to control the delinquent accounts, i.e. Non-Performing Financing (NPF). Aqad and do’a are two practices related to Islamic banking. The former is being practised by virtually all Islamic banks especially in the case of financing products as part of shariah compliance. The latter, however, tends to be treated as an optional practice to some Islamic banks. In line with the goal to portray Islamic image through its banking practices, as discussed earlier, Bank M has formalized both practices in all contractual arrangements (e.g. house financing) and do’a in deposit-related products.

With regard to property financing, branches are deemed to follow specific procedures of implementing it. These include (a) bank officer has to explain to customer the concept of financing types i.e. Bay’-Bithaman Ajil (BBA) or Istisna’, (b) bank officer has to explain the important terms and conditions in letter of offer, (c) customer signs letter of offer, (d) bank officer does “aqad” (oral agreement) with customer depending on financing types, (e) bank officer read do’a (say prayer), and (f) bank officer explain to the customer of the importance to pay one’s debt and the consequences if failed from Islam point of view. There are two interesting points that need to be elaborated. One is the content of the do’a i.e. step (e) and second is the step (f) of the procedures.

What follows are extracts of the do’a:
“Oh God you are witnessing this agreement/contract. Thus give us the strength to fulfil all the terms stipulated in this agreement so that we are among those who are honest. Please grant our customer the easiness and excess to make repayment which is the dutiful obligation of him/her. Oh God please do not leave us in sinful condition but to forgive us; do not leave us in sorrow but to ease us; do not leave us in debt ridden but to repay all our debts; …” (Source: Bank M)

Do’a is a way of asking God to grant whatever one wishes be it a good thing to take place or a bad thing from happening. And when a financier (through its agent i.e. bank employee) make do’a asking God to grant easiness to pay debt on the part of debtor, the bank shows kindness and consideration to customer and act in the interest of the customer. This is a form of building fairness which encompasses Greenberg’s (1990) relational fairness concept. According to Greenberg (1990) relational justice refers to treating individuals with politeness and consideration. It could be viewed that control systems manifested in this nature are resulted from social cultures and ideology through religious teachings. The aqad process itself brings weight to both parties to abide with terms of contract. As mentioned by one interviewee, “I feel more bonded to the
agreement simply by hearing God’s name being mentioned. You feel more obliged to what you are doing.”

Explaining each important terms of the agreement to customers prevents them from feeling cheated with hidden costs that they may latter find out after an agreement has been signed. As these selected interviewed managers put:

“Part of our practice is to protect customers …by being transparent … explaining to customers all the terms.”

“It is best to tell [customers] everything in black and white. … At our bank it is required… if you don’t do, it is against shari’ah and considered null [from Islam’s perspective]. You have to be accountable to God. It gives this God fearing feeling in you… if you know what I mean.”

This is a manifestation of building fairness to customers by practising transparency. And to end a transaction by reminding customers and bank officers of God’s warning to honour one’s debt is a spiritual way of enhancing one’s will to pay all debts when they come due. While NPF level is controlled through traditional budget control where branch managers are given target to reduce it, the procedures pertaining to signing agreement, as discussed above, which is implemented based on Islamic principles are unique ways of facilitating the target to be attainable. Thus it is clearly showed that the practice of integrating moral reasoning may contribute to broader management control process and in turn organizational effectiveness.

One branch of Bank M organizes Yaasin recital (the reading of one of the chapters from Qur’an) in its branch every Friday afternoon and extends the involvement to other organizations’ employees who work in the same building by inviting them to the weekly event. This practice has two important issues to be discussed. First, the practice of Yaasin recital on Friday is a norm to Malay Muslims in Malaysia. By conducting this event weekly, the bank attempts to portray to the public that it is practising Islamic teaching that is consistent with its line of business and thus can influence the latter’s perceptions. Second, by extending the invitation to employees of other organizations that locate in the same premise, the bank is effectively building a relationship with its future customers. This is consistent with what is required in the guidelines for branch manager document which states that branch managers are to “establish and maintain good rapport and relationship with customers, businesses and social organisations to promote goodwill and gain new business”. It is evidenced that the Islamic practice was internalized into the banking activities at the branch level. Such activities implying that by doing so their bank’s image in the eyes of the stakeholders will be enhanced. This is the reputational value of such codes of practices.

Shariah Committee (SC) and Boundary Control
The Bank's business activities are subject to the Shariah compliance and conformation by the SC consisting of 4 members appointed by the Board for a 2-year term. The duties and responsibilities of the SC are as follows:

i. To advise the Board on Shariah matters in order to ensure that the business operations of the Bank comply with Shariah principles at all times.
ii. To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shariah principle; and

iii. To advise the Bank on matters to be referred to the Shariah Advisory Council.

Although the SC is appointed by the Board of Directors, the former is independent and has the authority to sanction any proposals in the light of Islamic law. It can be argued that the SC effects the boundary system which Simons (1995) asserted as playing a limiting role of circumscribing the territory where Bank M seeks new opportunities. SC operates at global level of Bank M structure and does not have a direct link with the operating level of branches. However, through Shariah Section, matters pertaining to shariah compliant practices at operating level are closely monitored by Shariah Committee. It is evidenced that in Bank M, Shariah Committee’s role goes beyond ensuring products compliance. Its other important role is to focus on the internalization of Islamic values by bank personnel at operating level through the Shariah Section. Shariah Section is headed by a manager that links SC with the bank’s operation. It conducts periodic Shariah compliance review.

Conclusion
This study examined broader framework of management control that incorporates fairness and trust in an Islamic bank operation. Specifically, this paper sought to: (i) describe MCS mechanisms used at grass-root level of an Islamic bank, (ii) explore how fairness notion in relationship with customers manifests in banking activities, and (iii) examine how this notion of fairness is formalized in routine procedures. It contributes through empirical evidence on how beliefs systems and boundary systems could manifest in practice. However, this study has its limitation as with most other studies. The approach used was a case study and is subjected to the weakness associated to this method. The generalizability of the findings may be limited due to the presence of various characteristics which are specific to the characteristics of this bank. Multiple case studies that include both conventional and Islamic banks can provide insight on differences and similarities are suggested for future research.

References


