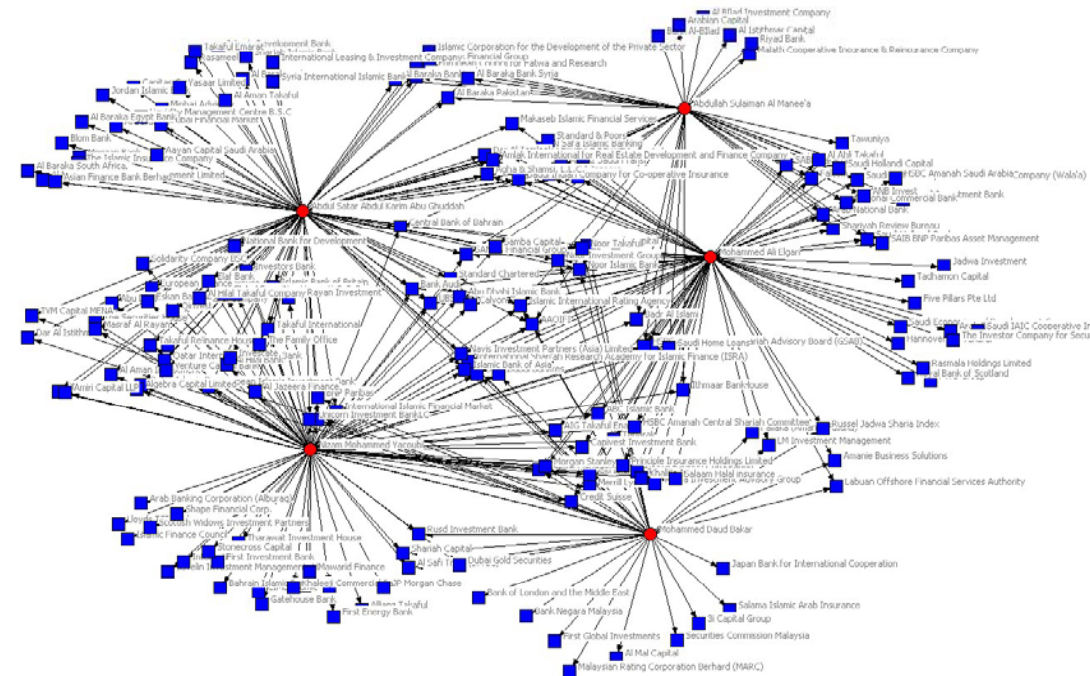


Shariah Scholars and Governance - A Network Analytic Perspective, v. 6.0

Funds@Work®

THE INVESTMENT INDUSTRY'S STRATEGY CONSULTANT

Murat Ünal, 19 January 2011





Background Funds@Work AG

- We are a research based strategy consultant focusing on the investment industry. Since 2001 we have completed more than 170 projects in 14 countries. In this context we have developed new solutions, organizations and have been involved in numerous market entry as well as expansion projects, assisting also in take over activities. Among our clients are mainly asset management companies (including ETF providers) and fiduciary managers, portfolio managers, stock exchanges, technology and information providers, and other relevant entities of the asset management industry's value chain. We focus on those that provide solutions and platforms for investors but also increasingly work for institutions governing the industry
- As part of our unparalleled market intelligence we cover among others over 13,000 institutional and semi-institutional investors across our core and strategic markets, i.e. those that use the products and services of our clients. We hereby apply a model-based screening process but also (social) network analysis and visualization to get deep insights into market participants' needs and motives as well as their relationships, getting a genuine 360 degree view
- In 2003 we added a focus on socially responsible investments next to our core activities in the traditional investment industry and have worked for numerous clients, being convinced that SRI would increasingly take away market share from the traditional investment industry. In 2006, we won a State Street Award for emphasizing, in our publication, the great importance of including Corporate Governance and socially responsible investment criteria in institutional investors' portfolio decisions. SRI brought "values" back to investments. In October 2010, after 8 years of solid engagement with the region, our joint solution with Zawya went live in the Gulf Cooperation Council, i.e. Zawya Shariah Scholars, focusing on a unique database dedicated to Islamic Finance. This analysis is based on our network analytic research that has certainly set a global standard in this 1000 USD bn. industry and contributed greatly to better Corporate Governance and transparency. Recently we also received the Mediterranean Presidential Award for Global Excellence in Islamic Finance, being chosen as the Leading Advisory Group in the Mediterranean.
- Our core focus on the conventional investment industry but also dedication to socially responsible / sustainable investments as well as our know how in Islamic Finance is certainly unique in this combination and helps us to better grasp the changes in the asset management industry as a whole globally.



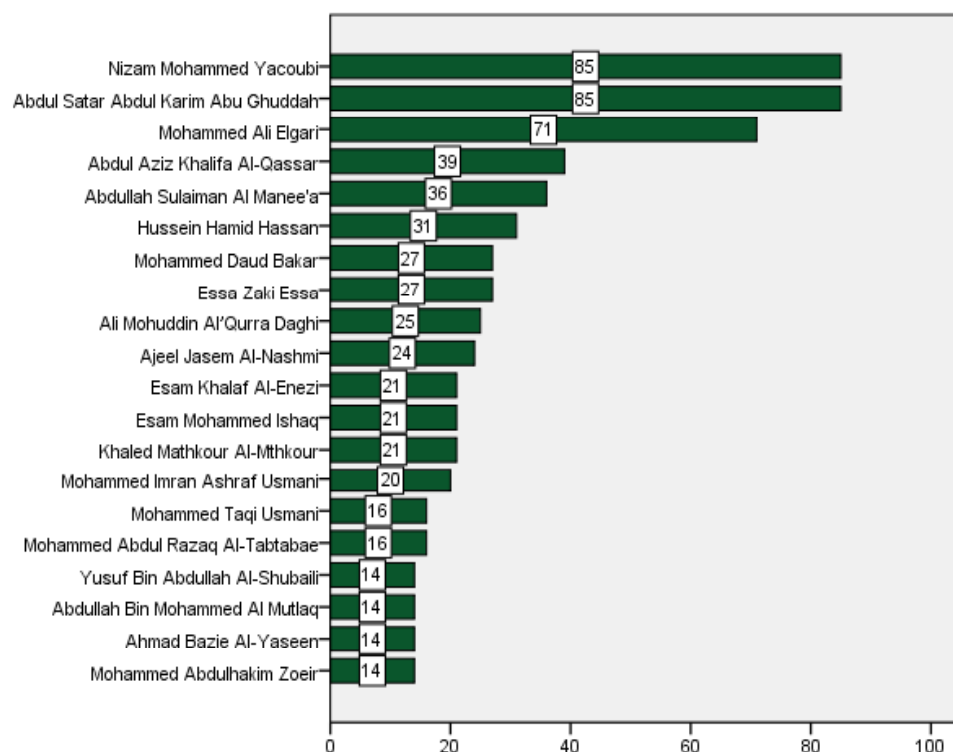


Our Shariah Scholar Research

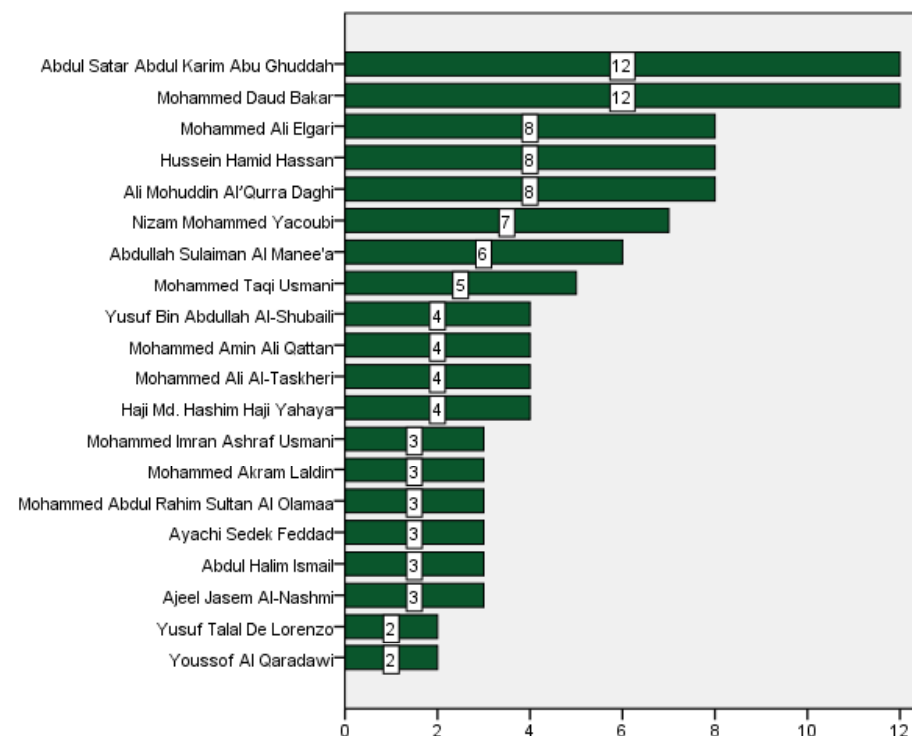
- When we began our network analysis in the Islamic Finance sector in 2008, looking at Shariah Scholars and their board memberships, in a rigorously researched manner, the results fuelled a tremendous move towards greater transparency and governance in the industry, with our findings becoming the most cited source globally when it comes to Shariah Scholars and their board memberships
- In the meantime, our research, driven by our board member Murat Ünal's academic involvement at IE Business School in Spain (www.ie.edu – formerly Instituto de Empresa) has moved further to incorporate new and unique insights into the shariah scholar network and among others its impact on corporate governance within the industry
- This updated report (v. 6.0) offers again new insights which we have not touched upon in earlier versions, giving again an unparalleled overview for the benefit of all market participants. One of our contributions will be again to Corporate Governance, focusing especially on the Shariah Board which according to AAOIFI and IFSB plays a crucial role in the governance of Islamic Finance Institutions. The IFSB highlighted the great importance of the Shariah boards by pointing out that “concerns over the roles and functions of the Shariah boards, which constitute part of the broader governance system, have been a recurring theme” *
- By making our data available through our partnership with Zawya (www.shariahscholars.com), market participants now have access to over 400 Shariah Scholars with almost 1500 board memberships (out of 400+ institutions in our universe). This will help in broadening the universe of Scholars to be potentially considered and help existing as well as newly emerging Islamic Finance Institutions as well as conventional ones with Islamic windows to identify the optimal mix of Scholars drawing on the established top Scholars but also others. Hereby market participants also profit from Zawya's strong data when it comes to sukuks as our scholar network data is now fully integrated into its sukuk issuance data with deep insights at the product level
- Enjoy the reading and please devote particular attention to our corporate governance related questions towards the end !



The Top 20 Scholars based on positions in Islamic Finance Institutions *



The Top 20 Scholars based on positions in standard setting bodies, unions, foundations, governmental entities and consulting firms **



* This overview includes Shariah Scholars' fixed board positions „as communicated“ by Islamic Finance Institutions (per 31 July 2010). If an organization has multiple boards on a country or regional level such as Al Baraka or HSBC Amanah and a Scholar serves on several boards within the group, then each board membership is counted separately. **Total available board positions considered were 1141** (at the end of July 2010)

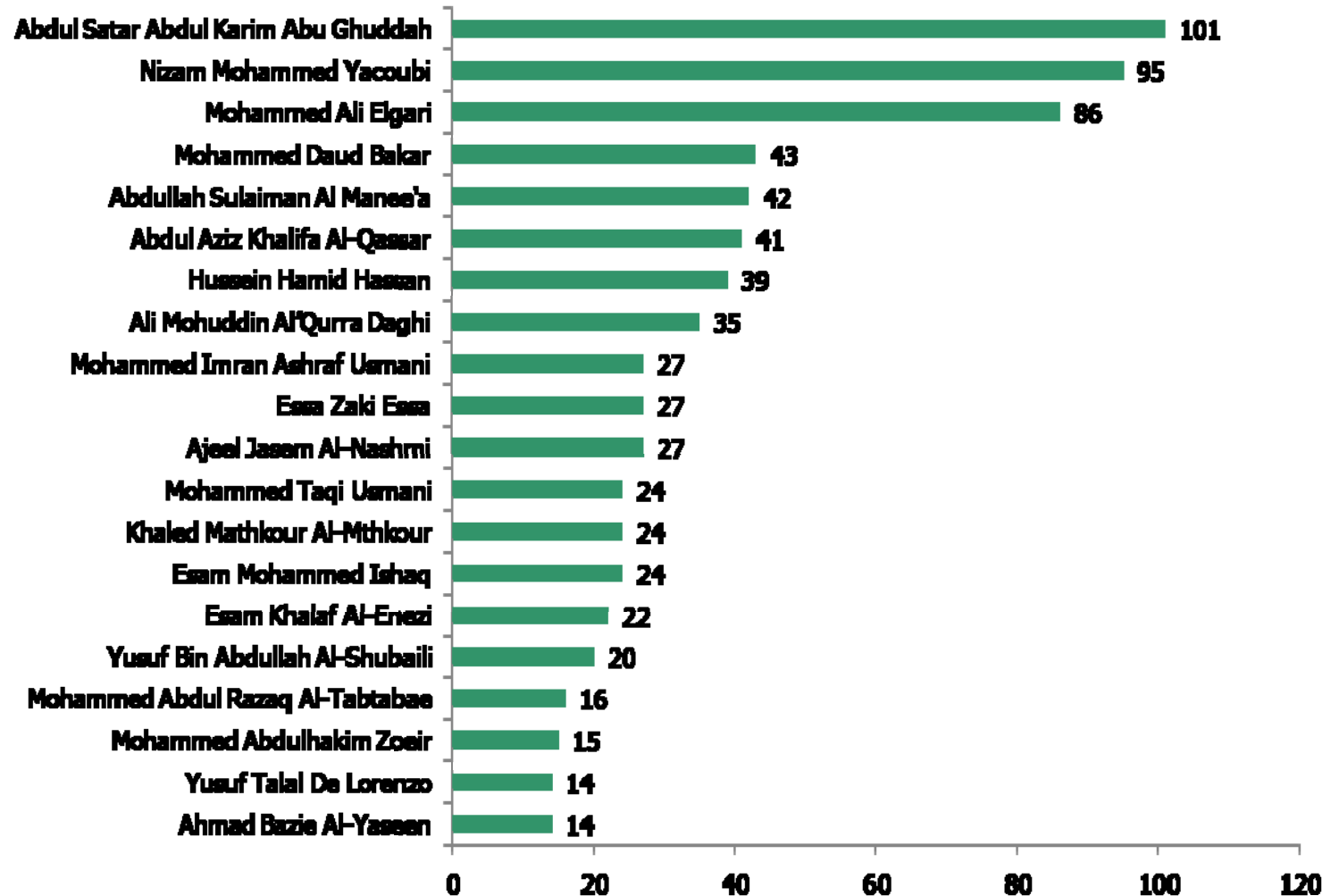
** These positions come on top of Shariah Scholars' board memberships in Islamic Financial Institutions (IFI). We have deliberately separated those as specific Scholars are particularly active in standard setting and government backed entities, unions and associations but also in Shariah consulting firms. Their visibility and credibility gained through those institutions impact their boards in Islamic Finance Institutions and vice versa. Here of course the question arises whether the scholars in IFI (the governed) should be the same as the ones in more regulatory functions (the governors) Total memberships are 165 equalling 1306 overall positions including the ones linked to Islamic Finance Institutions (this overall number has gone up to 1483 as per 31 December 2010 and our upcoming March 2011 update 7.0 will be based entirely on the latest figures)

Short excursion to 31 December 2010 data

The Top 20 Scholars based on their overall positions (using 31 December 2010 data) including their board memberships in IFI as well as involvement in standard setting bodies, unions, foundations, governmental entities (such as Central Banks) and consulting firms

*How shall we define influence?
In terms of the number of
board positions?*

*No, we need to look at multiple
measures as you can see on the
following slides!*





Short excursion to 31 December 2010 data

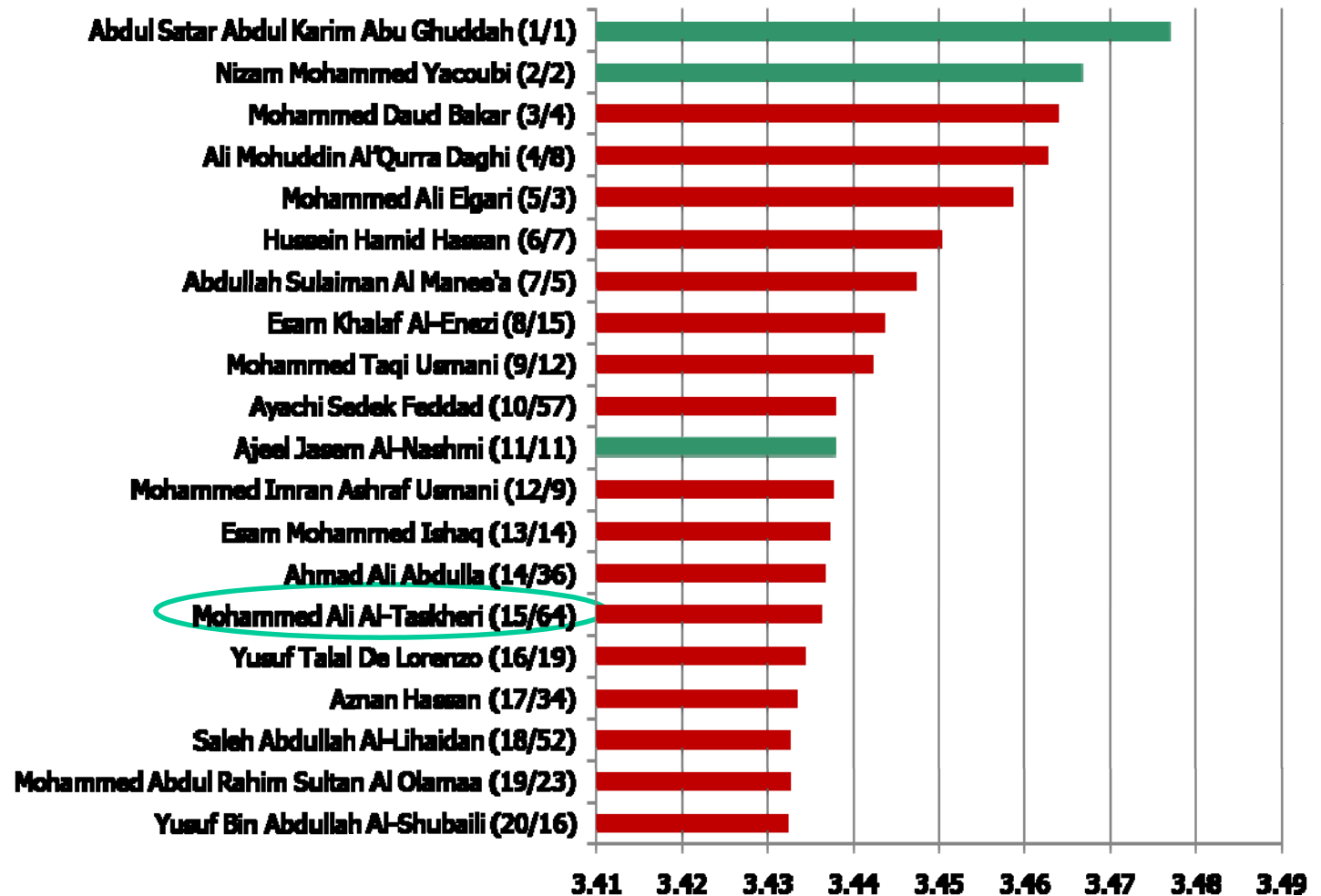
This chart shows the Top 20 Scholars based on their centrality within the Scholar network (31 December 2010 data). It is a ranking by „Closeness“ according to which a Shariah Scholar's centrality depends not only on how many connections he/she has—but also how easy (shortest path) he can access the remaining scholars within the overall network

As you can see the ranking changes for the Top 20 based on board memberships and scholars come to the forefront who in terms of overall board memberships were ranked much lower before. The brackets first show the scholar's ranking according to Closeness and then their position in terms of their overall board positions)

It is very interesting to see e.g. that Mohamed Ali Al-Tashkeri who is ranked no 64 by overall board memberships, shows up as no. 15 when considering his centrality, (despite having only 4 board memberships/links) i.e. being able to access all the other scholars in the overall network in the shortest way

How shall we define influence? In terms of the shortest way for a scholar to access all other scholars within the network?

So it is not only about how many positions a scholar has but specifically which positions they hold (providing them the shortest path to other scholars) within the global, regional and local network



Short excursion to 31 December 2010 data

Find Scholars Find Institutions Find Sukuk Request Analysis

Search over 300 scholars covering more than 1300 positions globally.

Type Keywords 

► Or find scholars who...



Sheikh Mohammed Ali Al-Taskheri

Highest Qualification: Undergraduate Studies in Arabic literature, Islamic law & Jurisprudence, Fiqh College of Najaf Ashraf

Current Board Positions: 4 in 3 Countries

Co-Scholars: Currently works with 33 scholars

Connect With This Scholar

Profile Sukuk Involvement Co-Scholars

▼ Education

Status	Degree Type	Major	Institution	Country
Completed	Undergraduate Studies	Arabic literature, Islamic law & Jurisprudence	Fiqh College of Najaf Ashraf	Iraq

▼ Shariah Board Positions

Status	Position	Institution	Sector ⇅	Country ⇅
Current Position	Vice-Chairman	International Union for Muslim Scholars	Services > Associations	United Kingdom
Current	Member	AAOIFI	Financial Services > General Financial Services	Bahrain

Closeness operationalised

If we just focussed on the number of board positions we could not get the full picture.

Here is an abbreviated profile of the previously mentioned Sheikh Mohammed Ali Al-Taskheri from Zawya Sharia Scholars

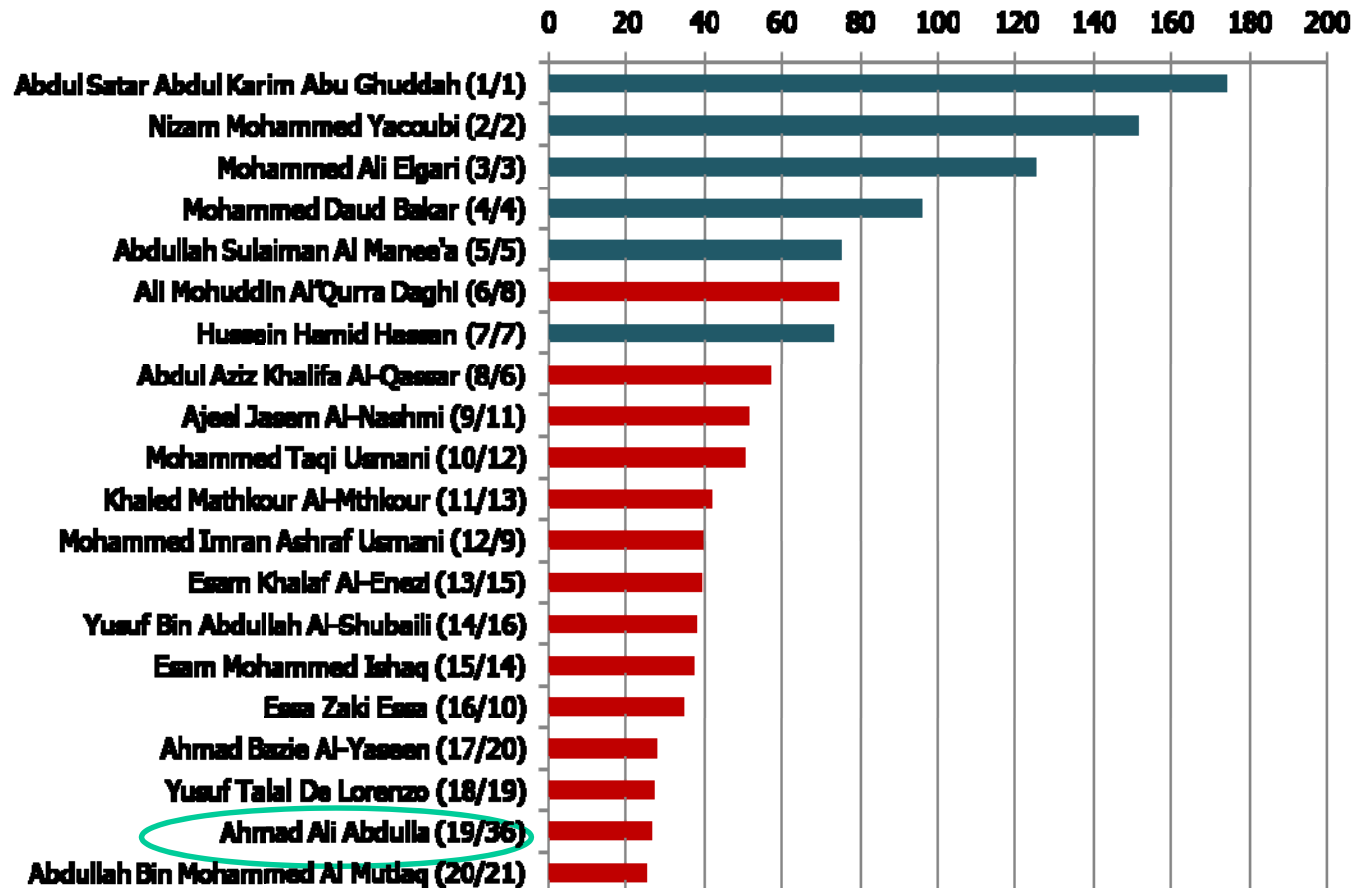
Despite only 4 board links, even in „non-IFI“ (such as International Union for Muslim Scholars, AAOIFI, IDB and IIRA) he is no. 15 within the Closeness parameters of the Shariah network and has much shorter paths to other scholars of whom many are highly ranked ones (in terms of number of board memberships)

This shows how important it is to not come up with arbitrary limitations to board memberships of scholars, as other factors also need to be considered, such as the centrality of a scholar within the system

This chart shows the Top 20 Scholars based on their centrality (31 December 2010 data). It is based on a ranking by „Bonacich Power“ according to which a Shariah Scholar`s centrality depends not only on how many connections he/she has — but also on “how central a scholar`s connections are themselves”. As you can see the ranking changes again and scholars surface that in terms of overall board memberships were ranked differently before. The brackets first show the scholar`s ranking according to Bonacich and then in terms of their overall board positions

It is also interesting to see that Ahmad Ali Abdulla who is ranked 36 by overall board memberships, shows up as no. 19 when considering his links to central/powerful others

How shall we define influence? In terms of being linked to central/powerful others within the network? Or even the value of one`s network , expressed in the size of the companies scholars are advising or even their status within the board (Chairman vs Member). In our March 2011 update we will value scholars`s board links by looking at the size of organizations, their assets, profits etc. If two scholars sit on 10 different boards, their influences can be totally different as shown here and in the previous slides. So limiting board memberships „arbitrarily“ can not be an answer in governing the system because it is not only about how many positions a scholar has (Ranking by board membreships), whether he/she has the shortest path to address other scholars (Ranking by board Closeness) but also to which central scholars one is linked within the system (Ranking by Bonacich Power) and many other factors



Bonacich Power operationalised

Again if we just focussed on the number of board positions we could not get the full picture

Here is the profile of Dr Ahmad Ali Abdulla (from Zawya Shariah Scholars) who according to Bonacich Power measures is central because of his links to many influential scholars. This makes him no. 19 in the overall Bonacich Power Ranking despite the fact that he is no. 36 with regard to the number of positions (overall 7 board memberships)

The question that comes up here is why do regulators and standard setters vary so greatly in their decisions regarding limitations of board memberships, with Pakistan limiting e.g. to one board membership, Malaysia to one board membership in a given category and AAOIFI aiming to cap at a much higher number. All these decisions seem to be arbitrary as the number of boards don't necessarily give you the full picture and as discussed earlier much more important factors count, including the size of the organization a scholar is advising, his infrastructure supporting him etc.



Find Scholars

Find Institutions

Find Sukuk

Request Analysis

Search over 300 scholars covering more than 1300 positions globally.

Type Keywords



► Or find scholars who...



Dr. Ahmad Ali Abdulla

Highest Qualification: Doctorate in , University of Khartoum

Current Board Positions: 7 (1 as Chairman) in 3 Countries

Co-Scholars: Currently works with 29 scholars

Nationality: Sudan

Connect With This Scholar

Profile

Co-Scholars

The following 29 scholars hold positions in Shariah boards common with Dr. Ahmad Ali Abdulla.

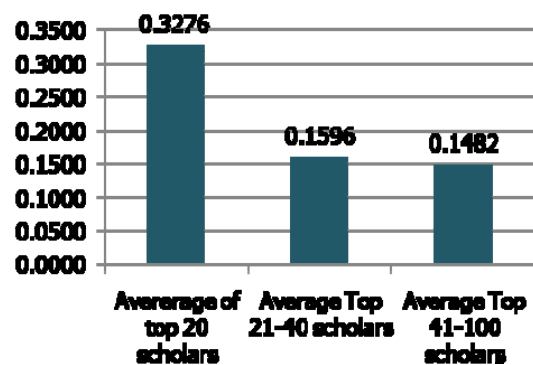
Scholar	Common Institutions
Dr. Hussein Hamid Hassan	5
Sheikh Dr. Ajeel Jasem Al-Nashmi	3
Mufti Mohammed Taqi Usmani	2
Sheikh Abdullah Sulaiman Al Manee'a	2
Sheikh Nizam Mohammed Yacoubi	2

Hierarchy scores showing to what extend scholars` links are dependent on one influential scholar

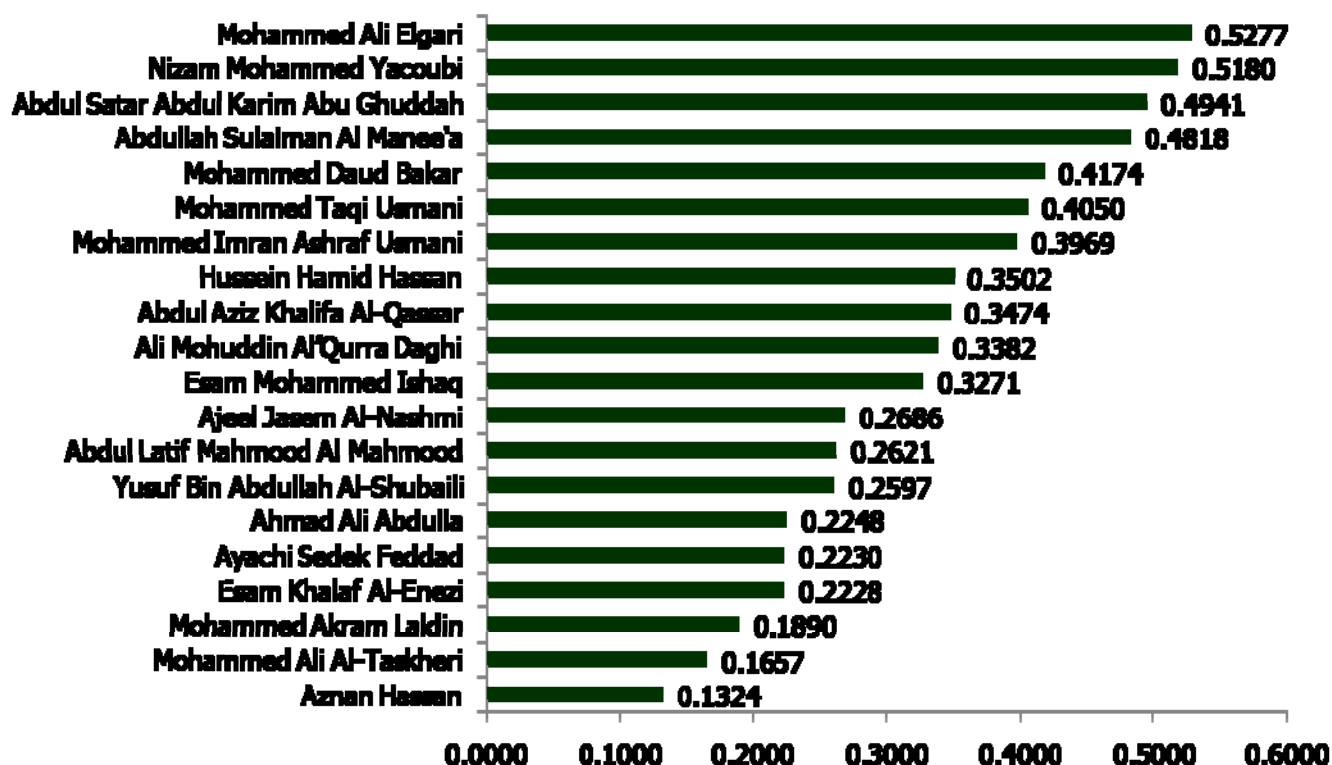
This ranking indicates the extent to which a specific Shariah Scholar`s network is constrained on a single other scholar. As you can see the top scholars share their boards predominantly with the same influential scholar/s.

In Mohamed Ali Elgari`s case his dependence is very strong, meaning that within his network he is primarily linked to one specific scholar (sitting on the same boards with the same person/s).

As you can see below, and on the graph to the right, top scholars tend to work with the same scholar in their board memberships. Whereas the average number is 0.1506 for Top 21-40 scholars, some top scholars even have figures of 0,518 + translating into a strong dependence which is almost 4 times higher than the remaining Top 41-100 scholars for example (with 0.1482). This is certainly not by chance



Hlerarchy Indicator



Short excursion to 31 December 2010 data



Find Scholars

Find Institutions

Find Sukuk

Request Analysis

Search over 300 scholars covering more than 1300 positions globally.

Type Keywords



► Or find scholars who...



Dr. Mohammed Ali Elgari

Highest Qualification: Doctorate in Economics, University of California at Berkeley

Current Board Positions: 84 (10 as Chairman) in 16 Countries

Co-Scholars: Currently works with 64 scholars

Nationality: Saudi Arabia

Connect With This Scholar

Profile

Sukuk Involvement

Co-Scholars

Events Attending

The following 63 scholars hold positions in Shariah boards common with Dr. Mohammed Ali Elgari.

Scholar

Common Institutions

[Sheikh Nizam Mohammed Yacoubi](#)

[34](#)

[Sheikh Dr. Abdul Satar Abdul Karim Abu Ghuddah](#)

[31](#)

[Sheikh Abdullah Sulaiman Al Manee'a](#)

[27](#)

[Dr. Mohammed Daud Bakar](#)

[18](#)

[Prof. Dr. Abdullah Bin Mohammed Al Mutlaq](#)

[11](#)

Hierarchy scores operationalised

As we can see Dr Elgari's network and mutual boards rest very much with a selected few scholars. This is reflected in his top ranking hierarchy score which we previously touched upon

So the upper echelons seem to be very tight and strong networks of the same people sitting in similar boards. The industry has an opportunity to bring about change by considering more junior scholars in their boards and others beyond the highly reputable ones of which we currently cover over 400 across the world

The current concentration among the senior scholars hardly allows for thorough mentorship and apprenticeship programs as supported by regulators as the same senior people are sharing the board, not being able to pass on their collective wisdom efficiently to the next generation of shariah scholars



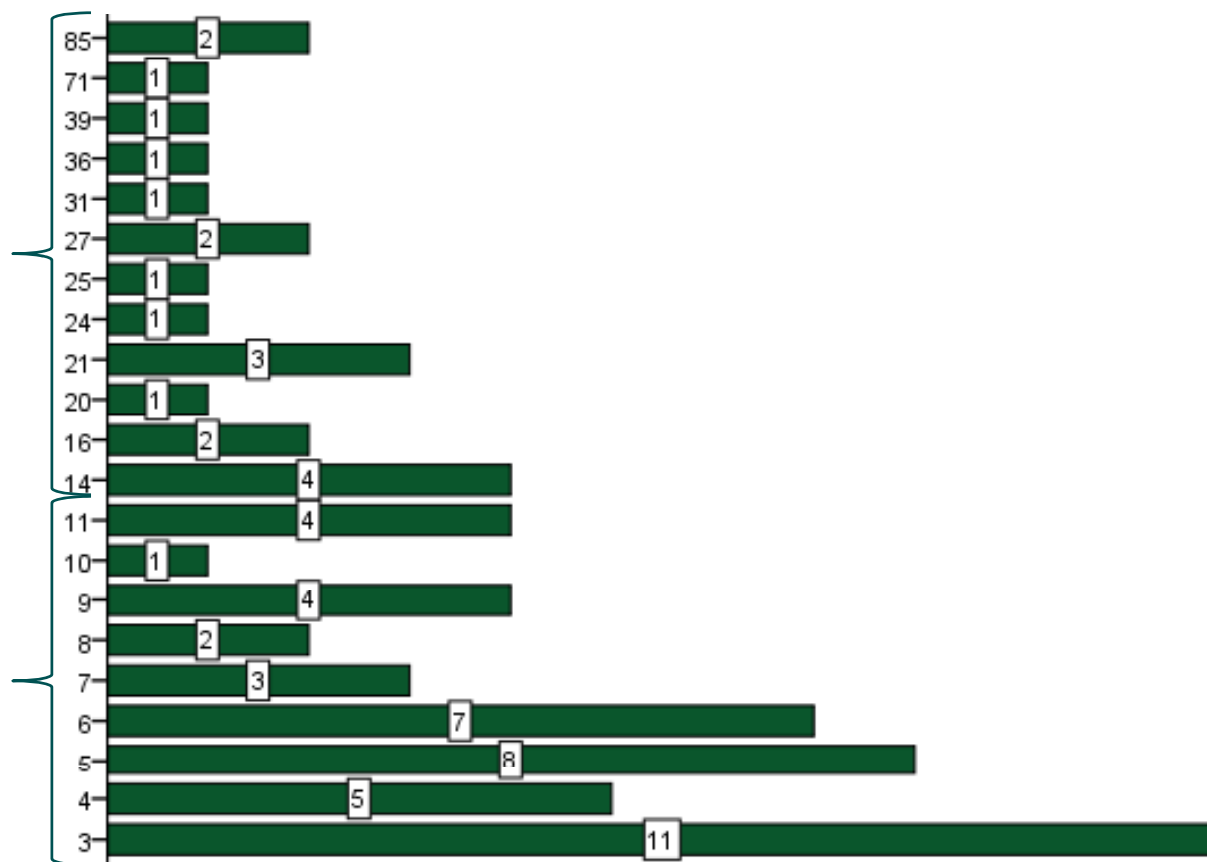
Distribution of board memberships

This graph shows the distribution of board memberships among the individual Scholars from a minimum of 3 to a maximum of 85 board memberships. As you can see at the top there are 2 Scholars with 85 board memberships in Islamic Financial Institutions and at the bottom 11 Scholars with 3 board memberships. In this context it is valuable to know that there are 43 Scholars with 2 and 173 Scholars with only 1 board position (not included in this graph)

The top 20 Scholars hold 85 to 14 positions each and through www.shariahscholars.com we provide insights into those Scholars having 11 to 1 positions and **who sit together with the Top 20 Scholars in Shariah boards of 271 Islamic Finance Institutions** out of 370+ (31 July 2010 data). This clearly shows that there are a minimum of 271 Shariah Scholars out there who have some kind of exposure to senior scholars. It is high time to bring them more into the picture

**Top 20 Scholars
having
621 board
memberships**

**The remaining
260 Scholars with
520 board
memberships**



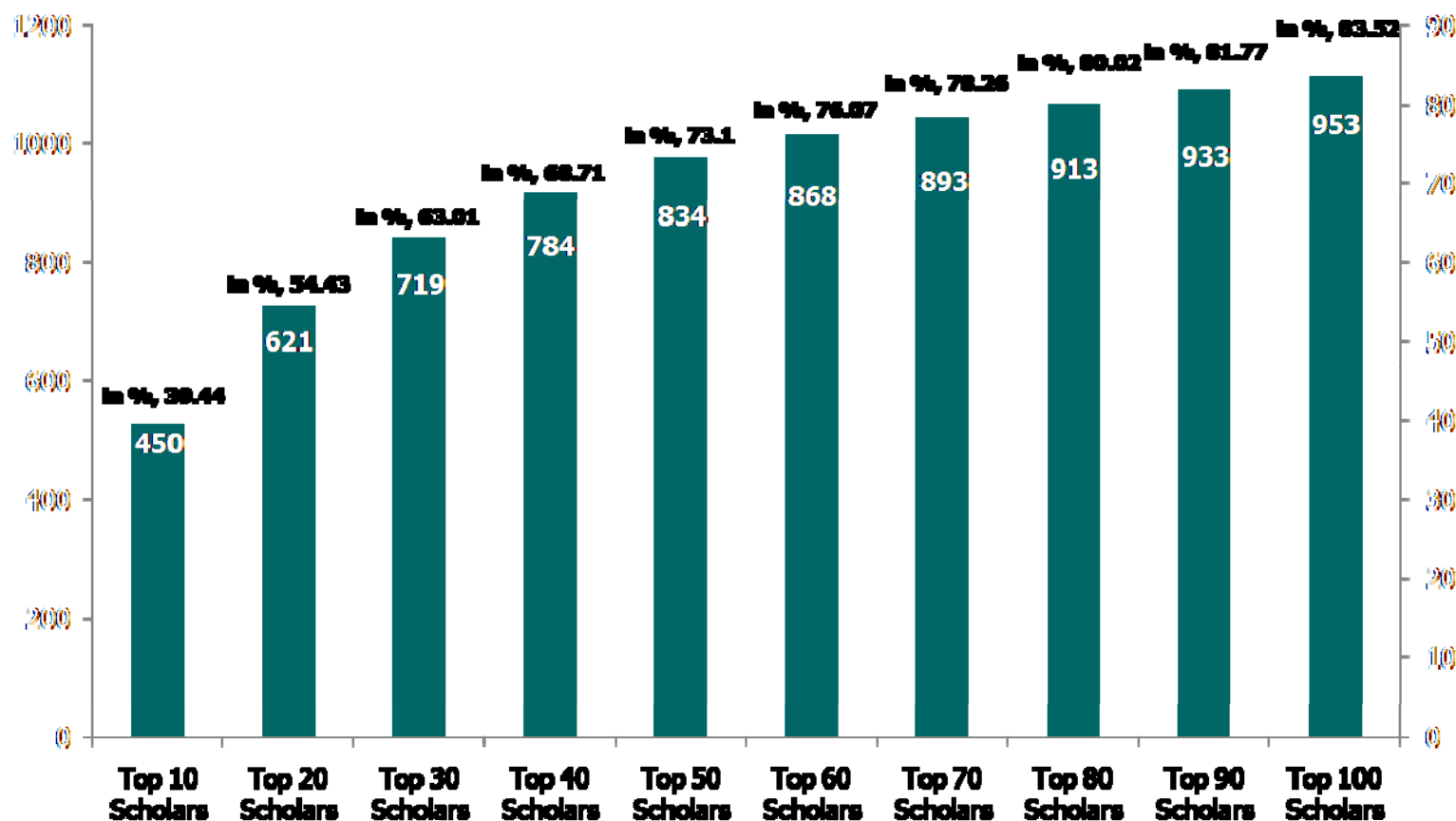


Concentration of board positions

This graph shows the number of board positions of Shariah Scholars in Islamic Finance Institutions

As you can see the Top 10 Scholars hold 450 out of 1141 board positions that are available and represent 39.44% of the universe

The Top 100 have 953 board positions and represent 83.52% (31 July 2010 data)



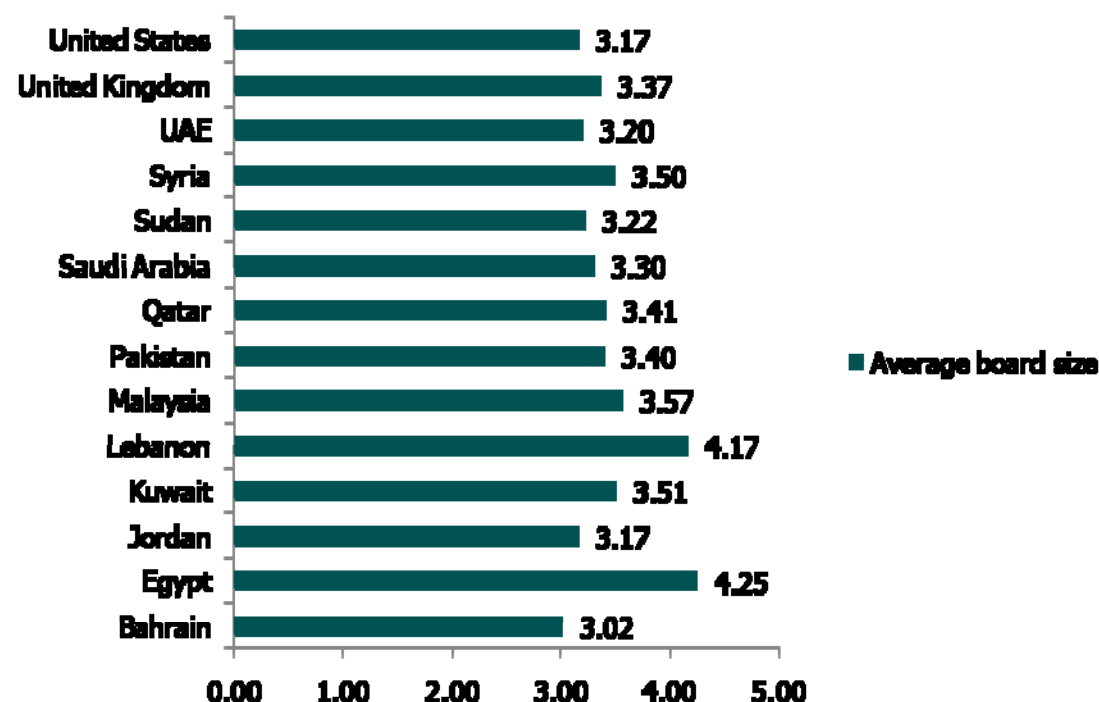
Average board sizes by country

This graph shows the average board size in Islamic Finance Institutions. The average board size is 3.33 Scholars per board across our entire universe including all countries and institutions

In order to get meaningful averages we have only included countries with a minimum of 4 Islamic Finance Institutions in this graphic

As you can see the countries, on average are above the recommended minimum threshold of 3 board members by standard setters (AAOIFI and IFSB) but there is sizeable variation with regard to "how much above". The averages for countries like Bahrain (3.02), Kuwait (3.51), the UAE (3.20) or Saudi Arabia (3.30) or Qatar (3.41) are of course better comparable due to the relatively larger number of existing Islamic Finance Institutions

It could be expected that IFIs targeting diverse countries will have larger boards and that board membership might also be dependent on the sectors covered and the overall commitment of the institution (Islamic Window versus fully Islamic organisation). This can now be verified based on our data (31 July 2010 data)



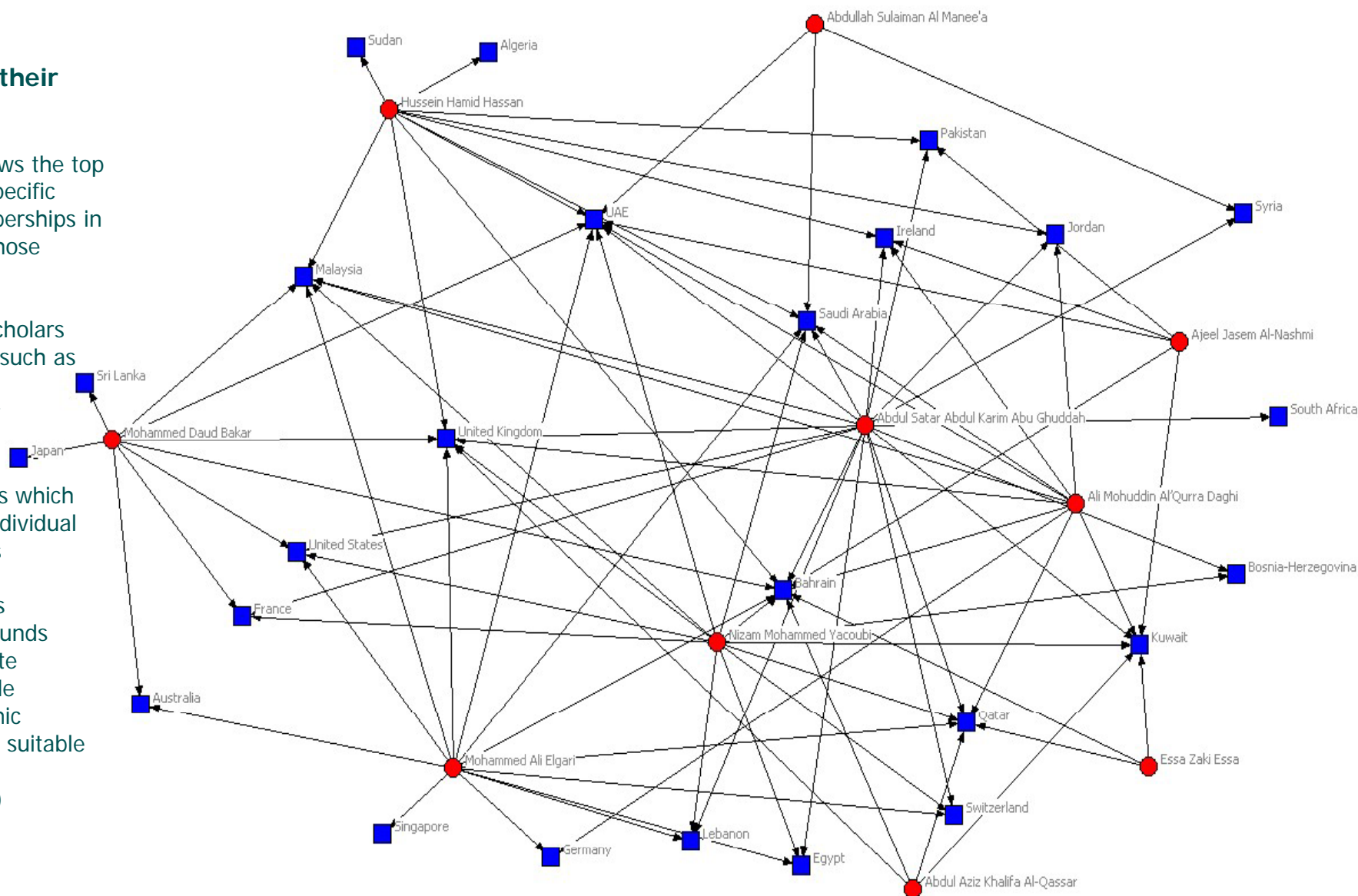


The top 10 Scholars and their international exposure

This network graph neatly shows the top 10 Shariah Scholars' links to specific countries through board memberships in companies headquartered in those nations

It shows that some of these Scholars have unique links to countries such as Sudan or Algeria and specifically highlights their international exposure

Zawya Shariah Scholars reveals which Scholars are available in the individual countries as well as subsectors and assist from a governance perspective to identify Scholars with different national backgrounds and country exposures to create diverse boards with local people involved and thus enable Islamic Finance Institutions to find the suitable Scholars who complement each other (31 July 2010 data)





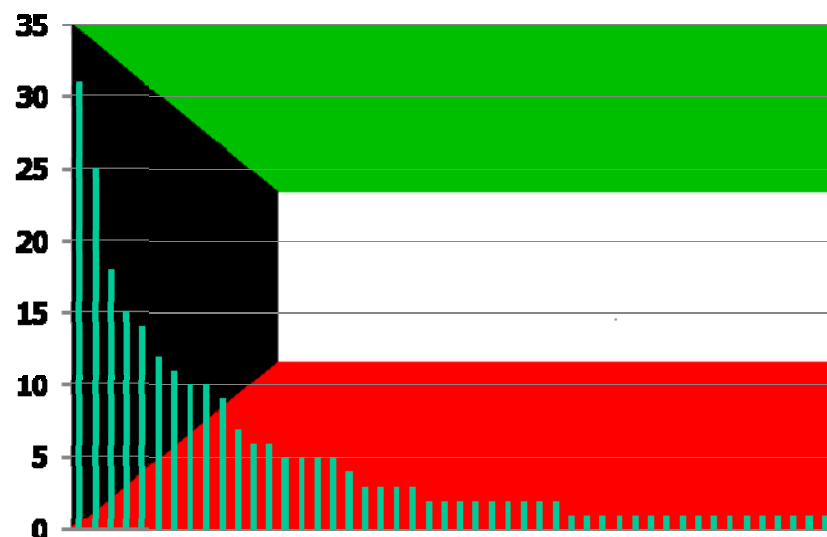
Scholar distribution in Kuwait based on positions in Islamic Finance Institutions

Currently 49 Shariah Scholars are active for Islamic Finance Institutions headquartered in Kuwait

The chart reflects the distribution of positions with the **top 5 holding 41.78 %** and the **top 10 Scholars representing 63 %** of all 246 positions that are available

44 Scholars (outside the top 5), share the remaining boards memberships, and Zawya Shariah Scholars www.shariahscholars.com gives insights into who these Scholars are, which boards they sit on, which tertiary institutions they attended, which majors they focused on and degrees they received, and which exposure they have to among others various countries or even sub-sectors within the financial services industry (such as real estate, banking, asset management or takaful)

Making all relevant data available provides market participants and academics alike an optimal tool to flexibly search for Scholars based on a variety of criteria, including their involvement in Sukuk issuance. Furthermore this knowledge might lead to greater objectivity in the selection process and greater diversity in boards (31 July 2010 data)

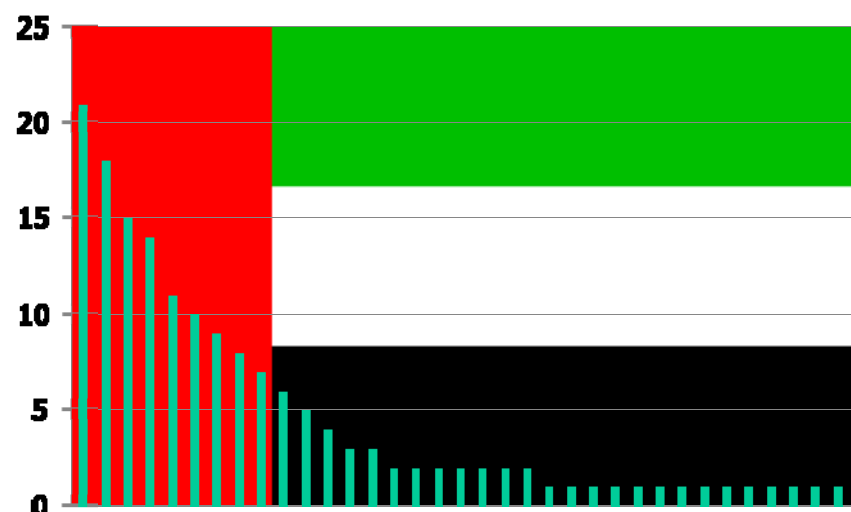


Shariah Scholar	Number of positions
Abdul Aziz Khalifa Al-Qassar	31
Essa Zaki Essa	25
Khaled Mathkour Al-Mthkour	18
Esam Khalaf Al-Enezi	15
Mohammed Abdul Razaq Al-Tabtabae	14

Scholar distribution in the United Arab Emirates based on positions in Islamic Finance Institutions

Currently 36 Shariah Scholars are active for Islamic Finance Institutions headquartered in the UAE

The following reflects the distribution of positions with the **top 5 Scholars holding 48.47%** and the **top 10 Scholars representing 73.01 %** of all 163 available positions in the UAE (31 July 2010 data)



Shariah Scholar	Number of positions
Hussein Hamid Hassan	21
Abdul Satar Abdul Karim Abu Ghuddah	18
Nizam Mohammed Yacoubi	15
Mohammed Ali Elgari	14
Mohammed Daud Bakar	11

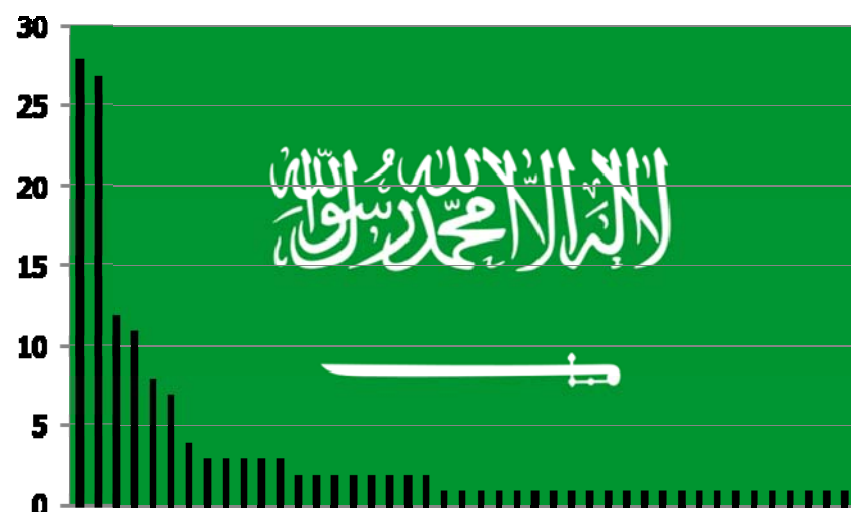


Scholar distribution in Saudi Arabia based on positions in Islamic Finance Institutions

Currently 44 Shariah Scholars are active for Islamic Finance Institutions headquartered in Saudi Arabia

The following reflects the distribution of positions with the **top 5 Scholars holding 56.58 %** and the **top 10 Scholars representing 69.74 %** of all 152 positions that are available

Again, as many of the remaining Scholars have active experience with Top 5 and Top 10 Scholars based on mutual board membership, there is a potential to also leverage their skills going forward complementing existing top Scholars for the sake of the industry's further development. This is also true for all other countries that are part of our universe (31 July 2010 data)



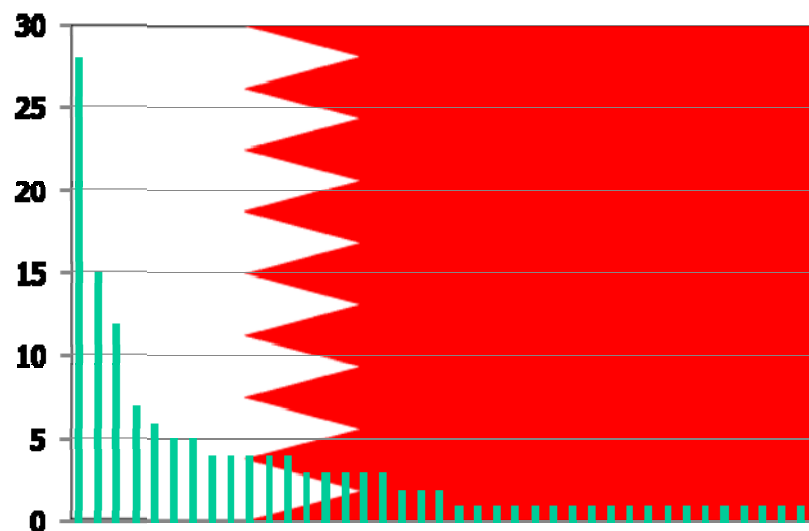
Shariah Scholar	Number of positions
Mohammed Ali Elgari	28
Abdullah Sulaiman Al Manee'a	27
Abdullah Bin Mohammed Al Mutlag	12
Abdul Satar Abdul Karim Abu Ghuddah	11
Abdullah bin Abdulaziz Al Musleh	8

Scholar distribution in Bahrain based on positions in Islamic Finance Institutions

Currently 40 Shariah Scholars are active for Islamic Finance Institutions headquartered in Bahrain

The following reflects the distribution of positions with **the top 5 Scholars holding 48.92 %** and the **top 10 Scholars representing 64.75 %** of all 139 available positions

Each bar (altogether 40) stands for the number of positions a particular Scholar has with many Shariah Scholars having less than 5 positions as you can see (31 July 2010 data)



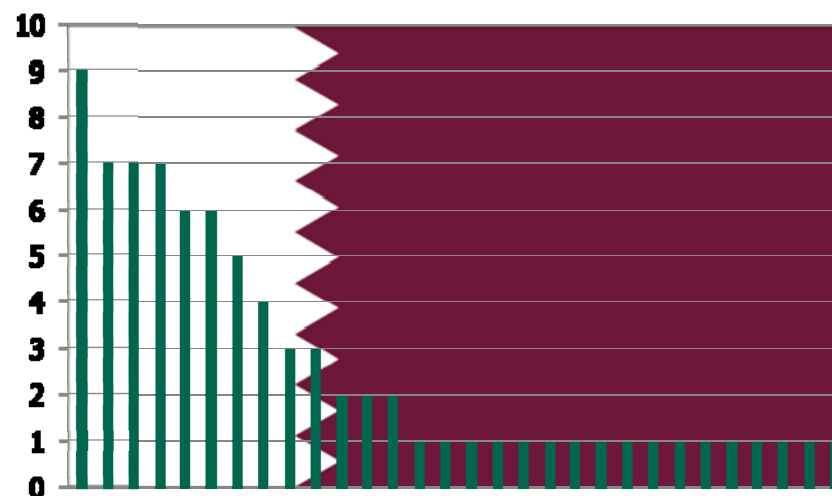
Shariah Scholar	Number of positions
Nizam Mohammed Yacoubi	28
Abdul Satar Abdul Karim Abu Ghuddah	15
Mohammed Ali Elgari	12
Osama Mohammed Bahar	7
Esam Mohammed Ishaq	6



Scholar distribution in Qatar based on positions in Islamic Finance Institutions

Currently 26 Shariah Scholars are active for Islamic Finance Institutions headquartered in Qatar

The following reflects the distribution of positions with the **top 5 Scholars holding 46.67%** and the **top 10 Scholars representing 74.67 %** of all 75 positions that are available (31 July 2010 data)



Shariah Scholar	Number of positions
Ali Mohuddin Al'Qurra Daghi	9
Waleed Bin Mohammed Hadi	7
Abdul Satar Abdul Karim Abu Ghuddah	7
Youssof Al Qaradawi	6
Nizam Mohammed Yacoubi	6



Scholar distribution in the remaining 25 countries outside the GCC based on positions in Islamic Finance Institutions

Currently 177 Shariah Scholars are active for institutions headquartered outside the GCC

The following reflects the distribution of positions with the **top 5 Scholars holding 27.87 %** and the **top 10 Scholars representing 40.44 %** of all 366 available positions

As mentioned earlier we also consider in our latest executive summary all peers of GCC Scholars that sit with them in boards outside the GCC which has increased the universe greatly to over 300 Shariah Scholars (31 July 2010 data)



Shariah Scholar	Number of positions
Abdul Satar Abdul Karim Abu Ghuddah	29
Nizam Mohammed Yacoubi	29
Mohammed Ali Elgari	16
Mohammed Taqi Usmani	14
Mohammed Imran Ashraf Usmani	14

The AAOIFI Scholars' affiliation matrix , based on positions in Islamic Finance Institutions

This matrix represents **the 12 most active AAOIFI Scholars who hold 38.47 %**, i.e. 439 of all available board positions in Islamic Finance Institutions (of 1141 that we cover today). The %ages are normalised data (adjusted for the number of board positions each Shariah Scholar holds) and show their affiliations with each other

If you look at our first data point, the cross section of Abdullah Sulaiman al Manee'a and Abdul Karim Abu Ghuddah you will see that the probability of sharing the same company boards is **46.69 %** (red circle). So basically in almost 5 out of ten companies they will be most likely sitting together on the same board. The higher the figures between Scholars, the closer Scholars potentially are to each other due to the higher interaction potential. These numbers are very significant and might be an indication how interaction and visibility at the AAOIFI level potentially impacts board composition in Islamic Finance Institutions. The higher the number of positions of individual Scholars the more reliable are the individual findings (see the case of Nizam Yacoubi and Abdul Satar Abu Ghuddah with both having 85 positions of which they share 61%, 31 July 2010 data)

	Abdul Satar Abdul Karim Abu Ghuddah	Abdullah Sulaiman Al Manee'a	Mohammed Ali Elgari	Nizam Mohammed Yacoubi	Ajeel Jasem Al-Nashmi	Ali Mohuddin Al'Qurra Daghi	Esam Khalaf Al-Enezi	Hussein Hamid Hassan	Mohammed Abdul Rahim Sultan Al Olamaa	Mohammed Daud Bakar	Mohammed Taqi Usmani	Yusuf Talal De Lorenzo
Abdul Satar Abdul Karim Abu Ghuddah 85 positions												
Abdullah Sulaiman Al Manee, 36 positions	46.69%											
Mohammed Ali Elgari 71 positions	50.82%	70.50%										
Nizam Mohammed Yacoubi 85 positions	61.36%	40.61%	55.08%									
Ajeel Jasem Al-Nashmi 24 positions	36.52%	0.00%	0.00%	20.66%								
Ali Mohuddin Al'Qurra Daghi 25 positions	42.35%	0.00%	22.65%	27.03%	57.61%							
Esam Khalaf Al-Enezi 21 positions	0.00%	0.00%	24.54%	29.27%	64.40%	0.00%						
Hussein Hamid Hassan 31 positions	38.50%	0.00%	20.40%	0.00%	76.26%	66.41%	0.00%					
Mohammed Abdul Rahim Sultan Al Olamaa 9 positions	48.72%	0.00%	58.25%	60.49%	0.00%	0.00%	0.00%	0.00%				
Mohammed Daud Bakar 27 positions	59.39%	0.00%	59.02%	55.24%	35.99%	55.71%	37.80%	47.54%	77.47%			
Mohammed Taqi Usmani 16 positions	54.60%	37.44%	36.09%	43.32%	0.00%	0.00%	45.13%	0.00%	0.00%	58.04%		
Yusuf Talal De Lorenzo 9 positions	48.72%	0.00%	52.19%	79.95%	0.00%	0.00%	0.00%	0.00%	75.11%	77.47%	67.74%	

The AAOIFI Scholars' affiliation matrix , based on positions in standard setting bodies, associations, governmental entities and consulting firms

This matrix represent again **the previously shown 12 AAOIFI Scholars** . This time however, as mentioned in the headline, we would like to show how AAOIFI members share board memberships in non – Islamic Finance Institutions. The %ages are again normalised data (adjusted for the number of board positions each Shariah Scholar holds) and show their affiliations with each other

This time we have no exclusion which means AAOIFI Scholars having no common boards (i.e. the case of 0%). These numbers are highly significant as **AAOIFI Scholars will share together on average 72.17 % of all other boards** . **If you take out consulting firms this average actually goes up to 81.90%**. In the case e.g. of Abdul Karim Abu Ghuddah and Sulaiman Al Manee'a we can see that **72.77% of their boards potentially overlap** (red circle). The higher the number of positions of individual Scholars the more reliable are the individual findings again. This is particularly true in the case of Esam Al-Enezi with only one position creating a high percentage rate (31 July 2010 data)

	Abdul Satar Abdul Karim Abu Ghuddah	Abdullah Sulaiman Al Manee'a	Ajeel Jasem Al-Nashmi	Ali Mohuddin Al'Qurra Daghi	Esam Khalaf Al-Enezi	Hussein Hamid Hassan	Mohammed Abdul Rahim Sultan Al Olamaa	Mohammed Ali Elgari	Mohammed Daud Bakar	Mohammed Taqi Usmani	Nizam Mohammed Yacoubi	Yusuf Talal De Lorenzo
Abdul Satar Abdul Karim Abu Ghuddah 12 positions												
Abdullah Sulaiman Al Manee'a 6 positions	72.77%											
Ajeel Jasem Al-Nashmi 3 positions	58.58%	73.88%										
Ali Mohuddin Al'Qurra Daghi 8 positions	67.96%	60.77%	100.00%									
Esam Khalaf Al-Enezi 1 position	100.00%	100.00%	100.00%	100.00%								
Hussein Hamid Hassan 8 positions	67.96%	60.77%	100.00%	81.54%	100.00%							
Mohammed Abdul Rahim Sultan Al Olamaa 3 positions	58.58%	55.05%	67.96%	49.07%	100.00%	49.07%						
Mohammed Ali Elgari 8 positions	48.33%	60.77%	49.07%	52.28%	100.00%	52.28%	49.07%					
Mohammed Daud Bakar 12 positions	38.98%	37.17%	39.01%	57.99%	100.00%	57.99%	58.58%	67.96%				
Mohammed Taqi Usmani 5 positions	100.00%	100.00%	77.10%	66.38%	100.00%	66.38%	58.58%	53.59%	42.21%			
Nizam Mohammed Yacoubi 7 positions	64.19%	64.32%	51.93%	66.67%	100.00%	56.23%	71.01%	56.23%	64.19%	69.62%		
Yusuf Talal De Lorenzo 2 positions	100.00%	64.14%	75.50%	100.00%	100.00%	58.58%	75.50%	100.00%	100.00%	67.34%	100.00%	

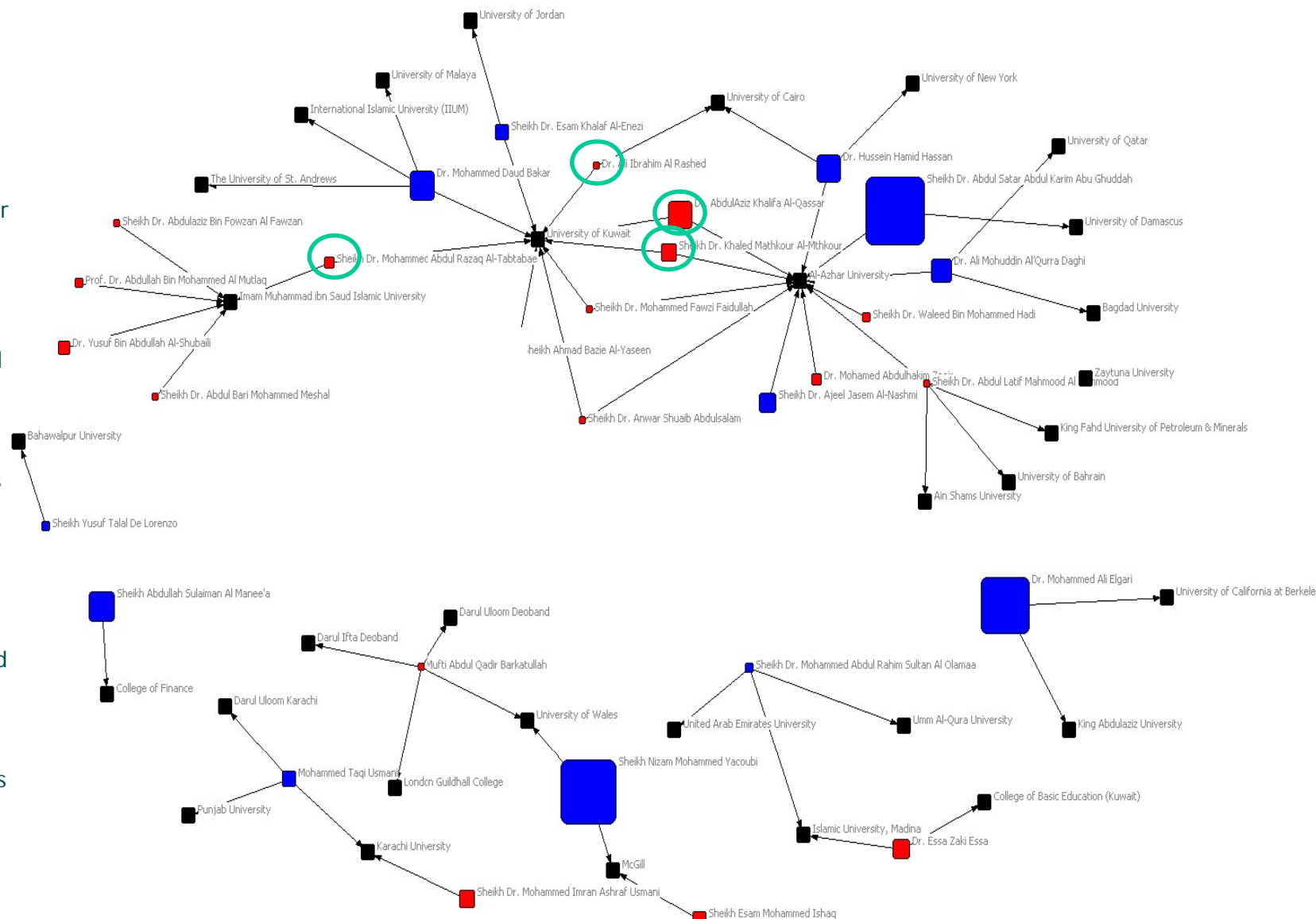


Top 30 Scholars and their university links

The size of the squares denotes the number of positions a Scholar has

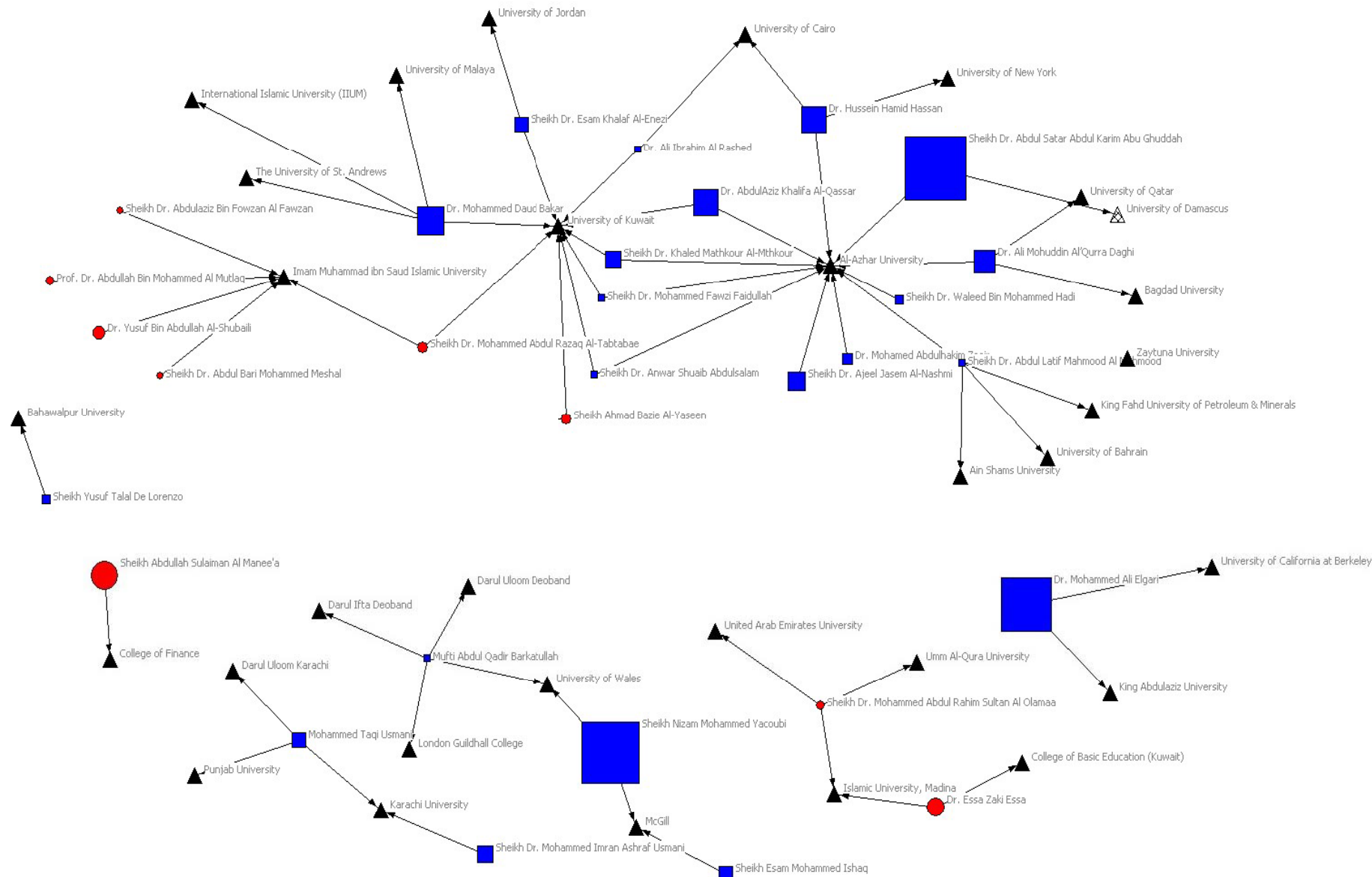
The blue squares (12) are actually the previously mentioned AAOIFI Scholars which as you can see are widely distributed in the educational networks and thus link a variety of university networks with each other. The red squares are non-AAOIFI Scholars in the top 30. The major networks evolve around Al-Azhar University and the University of Kuwait as well as Ibn Saud Islamic University

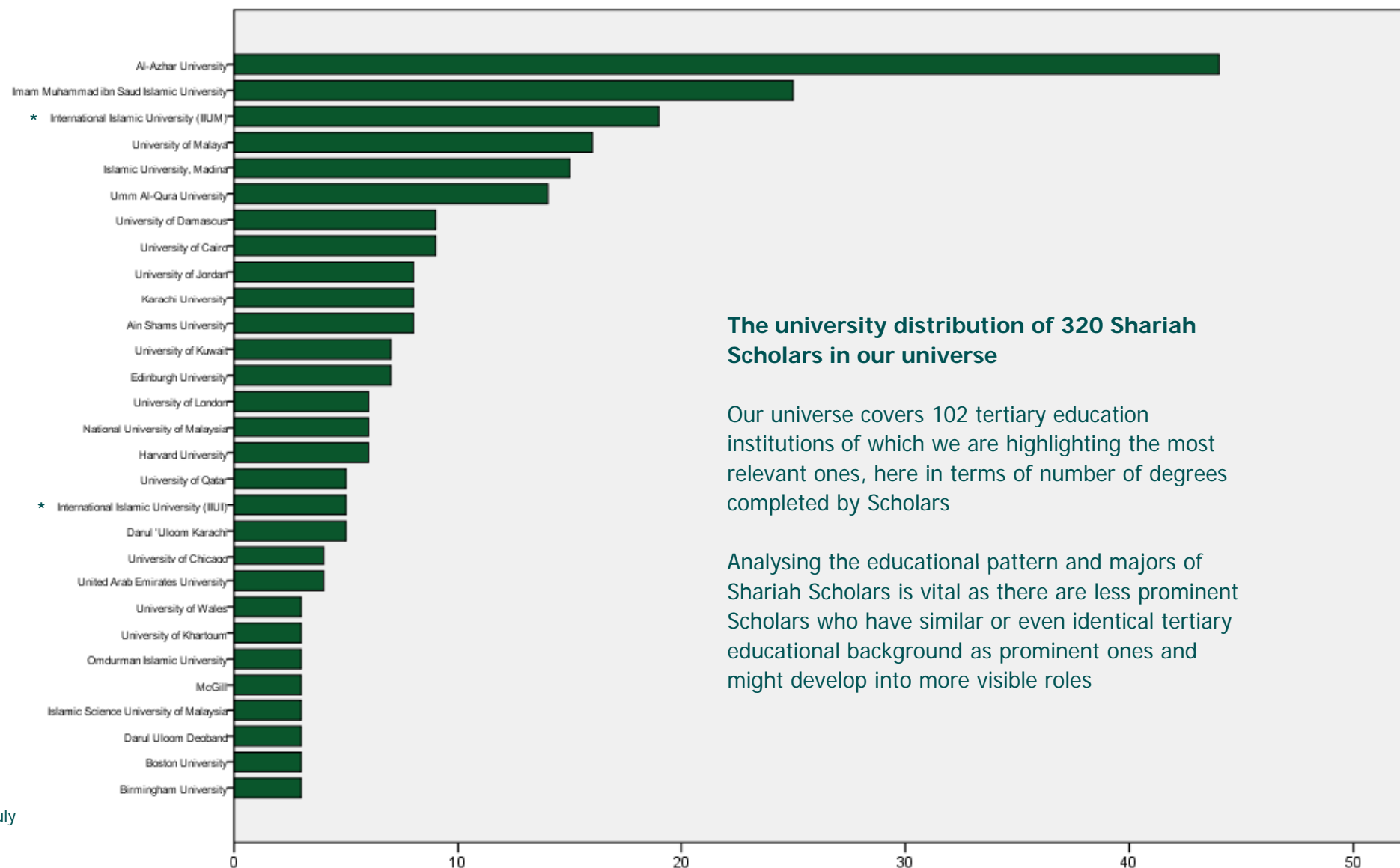
An interesting question that we look at is how does social capital, e.g. operationalised in university links, affect board memberships. As you can see some Scholars (see selected green circles as examples) link university networks and thus acts as boundary spanners. Being in this position can provide access to more social capital and resources and thus potentially determine success. Scholars who went to the same tertiary educations might also be more alike due to their similar exposure to teachings (31 July 2010 data)



As you can see in 21 out of 30 cases Shariah Scholars have enjoyed education outside the GCC (the blue squares) which seems to be a good predictor for their board membership penetration. These people might find it easier to also link different perspectives and thus act as boundary spanners and assist in regional integration

www.shariahscholars.com will in detail provide insight into educational backgrounds to search for top Scholars but also complementary ones outside the top ranks who have a similar educational background (31 July 2010 data)





The university distribution of 320 Shariah Scholars in our universe

Our universe covers 102 tertiary education institutions of which we are highlighting the most relevant ones, here in terms of number of degrees completed by Scholars

Analysing the educational pattern and majors of Shariah Scholars is vital as there are less prominent Scholars who have similar or even identical tertiary educational background as prominent ones and might develop into more visible roles

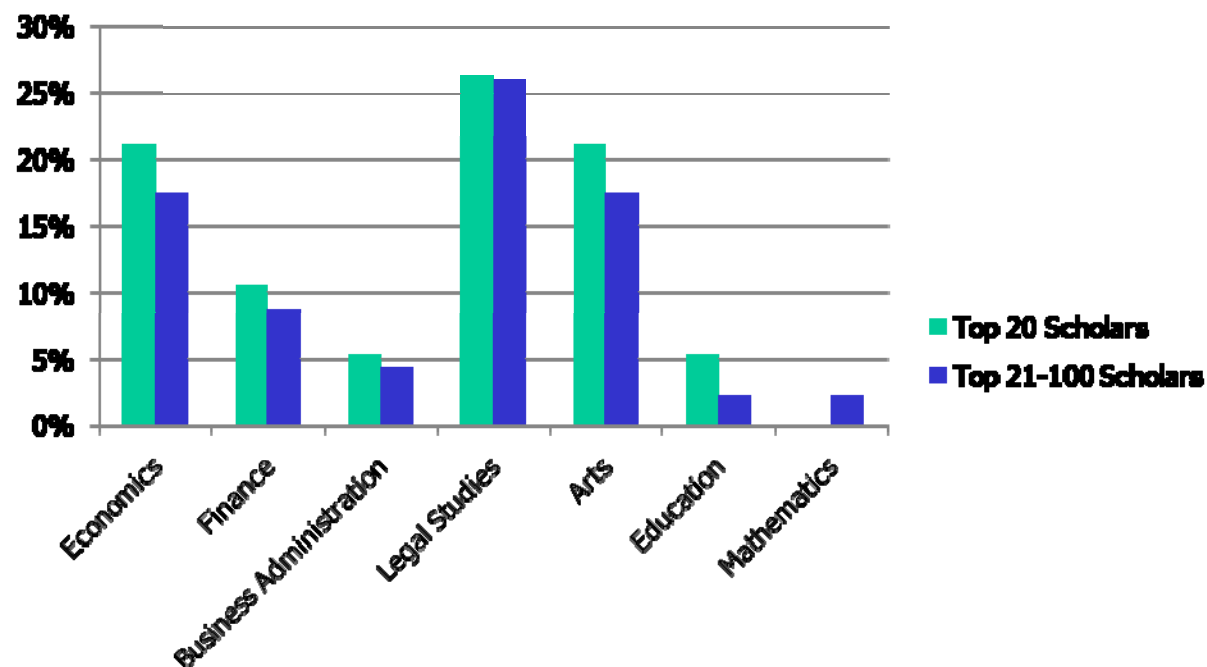
* IIUM stands for International Islamic University Malaysia and IIUI for International Islamic University Islamabad, these are separate entities. (31 July 2010 data)



Top 100 Scholars' educational diversity based on majors in tertiary institutions

By looking at the majors obtained by the top 20 Scholars (outside their Shariah related education) and the top 21-100, it can be seen that they are similarly distributed in focus on different areas of study

Zawya Shariah Scholars provides all the necessary information to see what degrees Scholars achieved where they studied and which majors they embarked on, allowing users to define complementary boards, drawing on the potential of prominent Scholars but also less prominent ones who have worked closely with top Scholars in the past (31 July 2010 data)





Corporate Governance and the role of the Shariah Board

Some questions to think of -1-

- What are potential conflicts of interest when Shariah Advisory firms not only consult but also engage in auditing the same Islamic Finance Institution?
- Has the „arbitrary“ limitations of board memberships in Pakistan and Malaysia e.g. created an incentive for scholars to engage in country arbitrage and offer their services abroad? How do regulators chose the right limit considering that multiple factors (as discussed in this presentation) affect a scholars` influence and position
- What is the optimal number of board memberships (considering the size and complexity of institutions a scholar is working for). If we accept that shariah scholars have different capabilities to handle their assignments why don´t we leave the optimal number to the IFI`s who should review a scholar annually and either voice their concerns or exit the relationship?
- Should shariah scholars have more formal training in economics and finance? If not, would it make more sense to open up boards to specialists in other disciplines to provide the board with greater diversity ?
- Despite tighter rules, research from Malaysia shows that new shariah scholars are predominantly recruited upon recommendation of existing scholars. What should be done to bring more objectivity into the selection process that even in Malaysia seems to be social capital driven? Can nomination committees really take care of this?



Corporate Governance and the role of the Shariah Board

Some questions to think of -2-

- Are checks and balances potentially undermined when shariah scholars not only govern the IFIs but also play a dominant role in national shariah boards (at e.g. central banks) and international standard setting organisations? Who is controlling whom? Who governs and who is governed?
- Why is remuneration of shariah scholars not made public specifically in the case of listed companies where shareholders have a specific right to ask for greater transparency?
- We know from corporate governance research that „firm size“ rather than performance can explain almost nine times the amount of variance in CEO pay, what measures should determine compensation of Shariah Scholars? Size (payment for complexity)?
- We also know from prior research that changes in board structure increase the board's monitoring and control capacity and can be beneficial to innovativeness. Should limits (in years) to board memberships and rotation be institutionalized?



Corporate Governance and the role of the Shariah Board

Some questions to think of -3-

- Research from Malaysia but also from the Gulf Region shows that Shariah Committees are even perceived by selected IFI to be as powerful as the board or even the CEO of the financial services company. Are the top management team and the board a „sideshow“ in Islamic Finance institutions?
- Visibility of scholars in standard setting bodies such as AAOIFI seems to affect their number of board memberships in IFI greatly. Should the number of board memberships in IFIs of scholars that work for standard setting bodies be limited?
- The top 2 scholars share 61% of their board memberships together. Where is the room for mentoring and apprenticeship systems when the same people of similar seniority tend to occupy the same boards? How can Bank Negara ´s idea of succession planning be put in process under these conditions?
- Bank Negara but also Hawkamah and the IDB encourage the board to consider appointing at least one member of the Shariah committee as a member of the board that could serve as a 'bridge' between the board and the Shariah committee. What sounds convincing from a network analytic perspective may however have adverse effects on the governance of the IFI. Why should it not be sufficient to just improve communication between the board and the Shariah Committee?
- Thanks for your patience and interest

Author



Murat Hasan Ünal studied Business Administration and graduated from the University of Adelaide/Australia (with research in Asia/Pacific) with a Bachelors Degree in Commerce (**B.Com**). He worked for an international management consulting firm after his studies and joined the mutual fund/financial services business in 1998 acting finally as a Management Committee member for a German Asset Manager where he was mainly responsible for integrated marketing, sales and PR.

As Head of Investment Marketing and Sales within Citibank Northern Europe (focusing on Belgium & France) in Brussels he managed the third party fund business (CitiChoice) and brokerage activities. Before Murat founded Funds@Work at the end of 2001, which he now represents as the responsible board member, he took over the bank marketing business at Fidelity Investments for a short period of time.

Murat has a Master of Business Administration degree (**M.B.A**) from the Kellogg School of Management/USA in joint cooperation with WHU/Germany and its network programs at Tel Aviv University/Israel and Hong Kong University of Science and Technology/China). Murat also holds a Master of Laws (**LL.M.**) degree from the School of Law at Northwestern University (NLaw) in Chicago.

Murat is a **Doctoral Candidate** and about to complete his Doctorate in Business Administration at IE Business School (Instituto de Empresa, www.ie.edu) in Madrid focusing on Social Network Analysis and its impact on Strategy but particularly Corporate Governance. He is also a Member of the International Network of Social Network Analysts.

He has published and contributed to more than 1000 articles in leading international dailies, practitioner magazines, industry books looking specifically at the investment sector. The leading German economic daily Handelsblatt recently featured him as one of six internationally acknowledged masterminds within the investment industry and the FT Asset Management's DPN publication singled out his work (a network analysis carried out among institutional investors and their links to the SRI industry) as ingenious.

He is an executive board member at Funds@Work AG, a research based strategy consultant focusing on the investment industry. Since 2001 he has been involved in more than 160 projects in 14 countries. In this context has developed new solutions and organizations and has been involved in numerous market entry as well as expansion projects, assisting also in take over activities within the investment industry. Among Funds@Work's clients are mainly asset management companies (including ETF providers) and fiduciary managers, portfolio managers, stock exchanges, technology and information providers, and other relevant entities of the asset management industry's value chain.



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