SCHOLARLY RESEARCH AND REVIEWS

International Journal of Scholarly
Research and Reviews
Journal homepage: https://srrjournals.com/ijsrr/
ISSN: 2961-3299 (Online)

(REVIEW ARTICLE)

Check for updates

Corporate governance through the lens of Islam: A comparative review and analysis

Marjan Usama Ismael *

Department of Finance, Faculty of Management Sciences, Eelo University, Somaliland.

International Journal of Scholarly Research and Reviews, 2024, 04(02), 001–010

Publication history: Received on 18 February 2024; revised on 29 March 2024; accepted on 01 April 2024

Article DOI: https://doi.org/10.56781/ijsrr.2024.4.2.0029

Abstract

Corporate governance is a set of relationship between a company's boards, its shareholders, and other stakeholders as well as provides the structure and mechanism through which the objectives of the company are set and the means for attaining those objectives and monitoring performance are determined. The concept of corporate governance (CG) has gained critical interest and has become a debating point since the mid-1980s. It became an aspect of concern when the corporate world became aware of the importance of protecting the rights of all stakeholders. This paper critically reviews the existing literature on Islamic Corporate Governance (ICG), presents a basic understanding of Islamic Corporate Governance (ICG) and compares the Islamic concept of Corporate Governance to the Organization for Economic Cooperation and Development principles. The study reveals that the Islamic system of governance encourages and promotes the ethical norms of transparency and honesty in every business transaction.

Keywords: Corporate Governance; Islamic Corporate Governance; Shura; Sharia; Organization for Economic Cooperation

1 Introduction

The term "corporate governance" and its everyday usage in the business world are new phenomena of the last decade and half. Corporate ownership structure is considered as having the strongest influence on corporate governance system, although many other factors affect governance including legal systems, cultural and religious traditions, political environment and economic events. Corporate governance is a set of relationship between a company's boards, its shareholders, and other stakeholders. It provides the structure and mechanism through which the objectives of the company are set and the means for attaining those objectives as well as monitoring performance are determined. Prior to 1997, the research carried out on corporate governance around the world was minimal (Shleifer and Vishny, 1997; O'Sullivan, 2000). However, the crisis that swept the financial markets and economies of the major Asian countries in 1997 and the failure of several famous names (e.g., Enron, WorldCom and Parmalat) that have occurred in the last 20 years led to questions over the importance and significance of good corporate governance practices.

Therefore, interest in corporate governance has grown and attracted considerable attention in the area of academic research and public policy in both developed and less-developed countries (Mallin, 2004; Solomon and Solomon, 2004; Sternberg, 2004). Corporate governance has also changed markedly to be an essential feature of companies (Hussain and Mallin, 2002), and a key to developing a market economy and civil society in transitional economies (McCarthy and Puffer, 2003), where investors are uncertain about the protection of their property rights.Islamic corporate governance (ICG) has received much attention in the recent years. After the financial global crisis of 2008, Islamic banking and finance has emerged as an alternative to its conventional counterpart (Aebi et al.,). The literature on ICG is growing quite rapidly and has attracted the attention of scholars and society. (Choudhury, M and Hoque, 2006)

* Corresponding author: Marjan Usama Ismael

2 General objectives of the study

The main objective of this study is to briefly portray the models of corporate governance and present the Islamic corporate governance to explore its features comparing with non-Islamic model.

2.1 Specific objectives of the study

This study aims to compare the principles of CG in Islam to the modern corporate world. The specific objectives are as follows:

- To present a basic understanding of the concept of CG in Islam,
- To gain a broader understanding of the building blocks of the Islamic system of Corporate Governance,
- To present an understanding of the concepts of Shura, Hisba, and the Shari'ah supervisory process and religious audit.
- To compare Corporate Governance in Islam to the OECD principles.

3 Research problem and justification

Corporate governance is one of the essential elements of any corporation development as it plays roles to design and promote principles of fairness, accountability and transparency. Western concept of corporate governance either the Anglo-American model that promotes shareholder-value system or the European Model that upholds the stakeholder-value system has been subject of continuing debate for well over a century. It is observed however that there is not much discussion or literature on the issue of corporate governance from the Islamic perspective.

As such, this study will try to fill the contextual gap in the literature related to comparison between the Islamic corporate governance and the conventional corporate governance.

4 Methodology

The study takes a theoretical approach, and reviews the existing literature on corporate governance. Accordingly, the literature related to the theories and concepts of Corporate Governance (CG) pertaining to the Western and Islamic models are reviewed.

5 Definition of corporate governance

There is no real consensus on the definitions of corporate governance (Keasey et al, 1997; Solomon and Solomon, 2004). Solomon and Solomon (2004) argued that there are substantial differences in the definitions of corporate governance according to which country is considered, and the viewpoint of the policy maker, practitioner, researcher or theorist. More precisely, the core of corporate governance depends on who controls the corporation and the extent of separation of ownership from control is the crucial issue (Shleifer and Vishny, 1997). In the same perspective, the term corporate governance is related to the term corporation, so to understand corporate governance we need to know what does corporation mean. Monks and Minow (2004) define a corporation as: "A mechanism established to allow different parties to contribute capital, expertise and labour for the maximum benefit of all of them. The investor gets the chance to participate in the profits of the enterprise without taking responsibility for the operations. The management gets the chance to run the company without taking the responsibility of personally providing the funds."

Corporation in Islam is defined as "a legal entity where the principle and proportionate of the firm's shares owned by the shareholders based on equity participation and profit-sharing ratios and deals with legal and organizational structures that control the internal governance of a firm with an objective to define and attain an objective criterion by way of understanding the relations between variables supported by policies, programs and strategic coalition" (Choudury and Hoque, 2006).According to the National Governance Policy Committee [2012], corporate governance is a set of rules or rules that are useful to encourage the achievement of corporate sustainability through management based on the principles of transparency, accountability, responsibility, independence, and fairness and equality. Furthermore, according to the national policy committee, good corporate governance is also needed to encourage the empowerment of functions and independence of each part of the company, namely the board of commissioners, directors and general meeting of shareholders. [National Governance Policy Committee [2012].

According to the organization for economic cooperation and development [2015] good corporate governance is a system that is applied to direct and control the company's business activities. Corporate governance regulates all rights regarding the division of duties, rights, and obligations of those who have authority and interests in the life of the company, including shareholders, boards, managers, and all members of stakeholders who are not part of shareholders [OECD 2015]. The concept of conventional corporate governance has five principles, namely transparency, accountability, reliability, independence, and fairness. The five principles are expected to make the company a high-quality company and going concern for a long time.

6 The nature of governance

The word "governance" comes from the Greek word kybernan, meaning to "steer", "guide" or "govern". At its broadest, governance - the act of governing - refers to the relationship between the governors and the governed, such as that between the government and the people, and has at its basis the decision-making powers ceded by individuals to those in authority so that the common interests of society can be served. The ship of state needs a good captain and crew to guide it but it also has to have a clear idea of where it is, where it is going, and how well it is progressing. Governance mechanisms are designed for these ends. Governance is essentially about decision-making: by whom, for whom, and with what resources. These three dimensions of decision-making apply irrespective of whether we are governing a nation or governing an organization such as a business enterprise. Nevertheless, just as governance of the nation state is informed by a theoretical model of the ideal state and the proper way to run a country (in Plato`s Republic monarchy, democracy, oligarchy), so too corporate governance is rooted in the conceptual basis of the firm.

Here we distinguish three alternative frameworks, covering the firm as a legal entity, the firm as an economic entity, and the firm as an accounting concept. Each of these concepts produces a perspective on one of the three decision-making aspects.

6.1 The Legal View

Decision-making "by whom" is implicit in the legal notion of the firm. For the lawyer, a firm is either an association of persons, a partnership, a limited partnership or a corporation, as well as several variants attached to each type. But the corporation is distinguished by virtue of the fact that it is assigned a distinct legal personality by the law, whereas a partnership is not. The corporate shareholders own the corporation as a legal entity, but the corporation as the legal body in turn owns the corporate assets.

Every corporation has the same contractual rights as an individual under law and is treated as capable of owning real property, entering into contracts, suing and being sued, all in its own name, separate and distinct from its shareholders.

Thus, the legal position of the incorporated firm is straightforward, and provides for three sets of participants:(Iwai, 2002)

- Shareholders, who supply risk capital under conditions of limited liability;
- Directors, who are responsible for the stewardship of the company's resources; and
- Employees, especially managers, who conduct the company's operations and manage corporate assets on a day-to-day basis under powers delegated to them by the directors.

Moreover, there is a strict two sequence line of the delegation of authority, running from shareholders to directors to management, which is designed to prevent shareholders from interfering directly in the management of the company.

In the United States before 1914, bankers and institutional investors held sway in the boardroom and executives had little real decision-making powers (Hawkins, 1997; Simon, 1998). It was not until the 1950s and 1960s that the "Imperial" CEO emerged. Prior to that time, most companies selected one person as chairman of the board and another, typically younger, executive as president. Thus, the legal position of the incorporated firm is straightforward, and provides for three sets of participants:

- Shareholders, who supply risk capital under conditions of limited liability;
- Directors, who are responsible for the stewardship of the company's resources;
- Employees, especially managers, who conduct the company's operations and manage corporate assets on a day-to-day basis under powers delegated to them by the directors.

6.2 The Economic View

Decision-making “for whom” flows from the economic view of the firm, which envisages a firm as a business enterprise in pursuit of profits that then accrue to shareholders as claimants of the residual income from corporate assets. The economic organization replaces a large number of market transactions that would otherwise be undertaken by individuals (and usually are in a simple economy). As societies and technology grow more complex, the problem of coordination by the price system becomes increasingly difficult and costly, pushing the firm to the forefront as an organizing device. By gathering functions within its corpus, the firm reduces the transactions, cost of negotiating the individual transactions.

Instead of numerous separate contractual relations between owners, employees, suppliers, customers, creditors, and governments in order to generate profits, the corporation is able to act as an independent holder of property rights, and to form contractual relations with others.

The complex network of contractual relations is greatly simplified, leading to a large reduction of transaction costs for all participants, shielding outside parties from the disruptions posed by internal disputes, illness, death or the entry of new partners or owners. While efficiency enhancing, the separation that is therefore introduced between ownership and control requires a governance framework to ensure that the decisions of the directors and management are compatible with the interests of those supplying the corporation with economic and financial resources. (Monks,1995).

6.3 The Accounting View

This leads us, finally, to the question of “with what” resources and thus the issue of “to whom” accountability is due for the use of resources. In the accounting view of the firm, the enterprise is viewed as a collection of resources for business activities, and information on those assets and the uses made of them is kept, maintained and reported for the benefit of participants and other parties. As such, the concept clearly pre-dates the development of the joint stock company, and grew out of the commercial necessity to treat a group or association of persons as a single entity for record keeping and continuity of business transactions. This “mercantile notion of the firm enabled merchants and their accountants to assign partnerships and other forms of collective business activity a personality in their books, and allowed financial contributions to become the capital of the firm and maintain this status in the books over time. It facilitated the flow of information to a range of contracting parties and meant that a number of persons (in the legal sense) could be regarded in practice as one individual in the rules of trade. (Brancato, 1997)

7 Models of corporate governance in a non - Islamic economy

7.1 Modern Concept of Corporate Governance

Good CG means good business, and it significantly helps to prevent corporate scandals, fraud, and the resultant civil and criminal liability toward organizations. A good CG image enhances the reputation of the organization and makes it more attractive and acceptable to all stakeholders, including customers, investors, and suppliers. A corporation with good CG can help the organization to maintain an effective management structure and activity system, which will subsequently facilitate the corporation’s ability to meet the needs of all its stakeholders.

Corporations that focus on achieving the principles of CG through the prescribed guidelines will be capable of keeping pace with the changing times. There is a broad consensus that the underlying problem of corporate governance is related to the company’s growth and through the separation of management and ownership (Keasey et al, 1997; Solomon and Solomon, 2004; Mallin, 2004). This separation might lead to conflicts of interests between owners, whose interest is to maximize their profit, and the management, which usually focuses on finding a balance between the shareholders’ interest and maintaining the corporation especially, in the long-term. Therefore, corporate governance systems differ between countries, reflecting contrasts of legal systems, cultural systems and economic environments.

In this way, corporate governance models in non-Islamic economy are divided into two models:

- Anglo-American Model (Unitary System) and
- The German Model (Dual System).

7.2 Anglo-American Model (Unitary System)

In the Unitary system the “Corporation” concept is based on a fiduciary relationship between shareholders and management. Based on the concept of market capitalism, the Anglo-Saxon system is founded on the notion that selfinterest and decentralized markets can function in a self-regulating, balanced manner (Cernat, 2004). The model assumes the dispersal of ownership across a large number of individual and institutional investors (Keasey et al, 1997; Solomon and Solomon, 2004). The Unitary System model is also characterized by the recognized primacy of shareholder interests and the protection of minority investors and strong requirements for disclosure. Hence, the concept of corporate governance focuses on the relationships between the corporation and its shareholders, and refers to a company's relationship with its shareholders to ensure that it acts in accordance with their interests. Keasey et al (1997) stated that corporate governance may be described as "a form of accountability of senior management to the shareholders''

7.3 The German Model (Dual System)

The second model is the German Model (Dual System), where, the accountability and responsibility of the corporation is not just to the shareholders, but goes beyond them to other stakeholders. The corporation is responsible to the wider society and should be resolving the conflict of interest between the related groups. This corporate governance model has been characterized by a pyramidal ownership structure, with companies owning each other through a series of cross-shareholding, extensive bank proxy voting and family ownership (Solomon and Solomon, 2004).

8 Islamic corporate governance

CG in Islam is unique and presents distinctive characteristics compared with the Western concept. The principles of CG are not new or unfamiliar to Islam. Whereas the debate is centered mainly on agency issues in the conventional CG model, the Islamic view focuses on stewardship or trusteeship. According to Islamic tenets, wealth belongs to the Almighty Allah and everyone. Regardless of position or stature, the director, manager, shareholder, or any other stakeholder is the trustee of this immense wealth. This assertion makes the Islamic concept of CG fundamentally different from others. Islamic CG is rooted in justice and fairness. It has a wide commission with obligations normally extending beyond shareholders, financiers, and management to a host of other stakeholders, such as suppliers, customers, competitors, and employees. Furthermore, it should embrace the spiritual and temporal needs of the individual and the community at large. All Muslims believe that human life aims to achieve Falah (success and eternal happiness) in the Hereafter. They believe that the world is a journey to reach the final destination of the Hereafter. Falah calls upon Muslim businessmen and directors of companies to be spiritually motivated to comply with all Shari'ah rules and regulations in their daily lives. They are expected to bear this in mind while conducting routine business dealings, making complex economic decisions, and managing the company's affairs. (Choudhary, M.A & Hoque,2006).

Moreover, conducting business dealings according to the Shari'ah principles will absolutely eliminate the possibility of causing any harm to others. At the same time, it will bring in a plethora of benefits to all the parties involved in terms of both physical and spiritual wealth. Falah can also effectively influence the minds and attitudes of businessmen and prompt their decisions toward good CG. Overall, Falah in the Hereafter acts as a spiritual motivating factor toward awareness about Hisab (accountability). (Dusuki, A. W. 2006).

8.1 The Basic Building Blocks of The Islamic System of Corporate Governance

The basic building blocks of the Islamic system of CG are the concepts of Shura, Hisab, and the Shari'ah supervisory process and religious audit. Converted into the current CG practices, these constructs translate to transparency, accountability, and trustworthiness.

8.2 Shura

In simple parlance, Shura means mutual consultation and consensus. Shura involves the selection of representatives and the use of consultation in the formulation of policies. The concept can be found in the Holy Qur'an (42:38): "Those who respond to the Lord, and establish regular prayer, who (conduct) their affairs by mutual consultation; who spend out of what We bestow on them for sustenance." Shura is capable of providing transparency in all operations, given that crucial decisions can only be made after careful deliberation and discussions. As decisions are made with due deliberation, decisions tend to be reinforced with the aspects of justice, equality, and human dignity. Therefore, the process of Shura can be considered as the most profound Islamic institutional and organizational model of governance in general and CG in particular. The basis and overall functioning of Islamic governance are based on Shura. The net result of Shura is transparency. This built-in openness and transparency in business dealings with members, shareholders, and other stakeholders increases the effectiveness of CG. Shura is one of the four cardinal principles in the Islamic perspective on socio-political organization. It is rooted in the Holy Qur'an, and various modes of consultations are mentioned in it. Prophet Mohammed (PBUH) used to consult with his companions on various occasions. The Muslim community is described as, among its other attributes, one that administers its affairs through mutual consultation. This consultative procedure is conducted to specifically and undoubtedly adapt Islamic basics. Furthermore, for Muslims, the religious dimension of existence broadly extends to encompass the whole gambit of life. Therefore, the principle of Shura calls upon Muslims to have all issues, whether social, economic, or political, be ultimately related to the basic Islamic conceptions. Dealing with issues within the basic Islamic ideas will facilitate the achievement of unreserved societal and public acceptance and support. Mawdudi argues that there are three reasons behind the shuratic decision-making process. First, on ethical grounds and in line with the basic Islamic precept of justice, those most affected by a decision, and/or those whose duty it is to implement the decision, should participate in its making. Second, consultation and consensus-seeking prevent one or a small group of individuals from over-riding others' rights and imposing their will on others for selfish motives or because of a belief that their views carry more weight. Such behavior is deplorable in Islam. Third, decision-making is an important trust from God, and Islam demands from those holding this trust to engender truthfulness, justice, consultation and a spirit of consensus-seeking among participants during group decision-making. (Mawdudi, A. 1974).

8.3 Hisab

The Holy Qur'an clearly considers humans to be accountable (Hisab) for their deeds before the Almighty. The word Hisab is repeated a number of times in the Holy Qur'an. The direct meaning of Hisab is "account." Hisab relates to one's obligation to "account" to the Almighty all earthly matters and accounts. Therefore, according to the Holy Qur'an, human beings are "accountable" for all their words and deeds. Those who have attempted to describe Islamic accountability (e.g., Abbassi, Rehman & Bibi, 2010; Nahar & Yaacob, 2011) have opined the inherent duality of Islamic accountability. The primary accountability is towards the Almighty given that man is a trustee (khalifah) entrusted with all worldly resources. The secondary accountability is the contractual relationship that human beings may have with organizations, managers, employees, local community, and environment, among others (Hameed, 2000, 2001). As Per the tenets of Islam, man is made the trustee (vicegerent) of all resources of the earth based on verse 33:73 of the Holy Qur'an. God subjects everything He has created on earth to the trusteeship of human beings. Verse 2:30 of the Holy Qur'an proclaims humans to be as follows: "Behold, the Lord said to the angels: 'I will create a vicegerent on earth." All human beings are expected to accomplish this responsible role of vicegerent or trustee justly, wisely, and with "accountability to God Almighty". This accountability does not stop here. Trust should be returned with due care and responsibility. Sura An-Nisa: 58 exalts humans as follows: "Allah doth command you to render back your trusts to those to whom they are due; and that when ye judge between people, that ye judge with justice. Verily, how excellent is the teaching which He (Allah) gives you! Truly, Allah is he who heareth and seethe all things. "This assertion was highlighted by Prophet Mohammed (PBUH) when he taught, "Each one of you is a guardian and each guardian is accountable to everything under his care." Furthermore, according to Qur'an (21:47): "We shall set up scales of justice for the Day of Judgment, so that not a soul will be dealt with unjustly in the least and if there be (no more than) the weight of mustard seed, we will bring it (to account), and enough are we to take account." This Qur'anic injunction extols Muslims to make their business policies and affairs fair, just, and honest. Moreover, Islam does not inhibit people's right to use nature to accumulate wealth. In fact, Islam encourages people to use nature fully as long as it is within the limits prescribed in the Holy Qur'an and Sunnah (Al-Faruqi, 1992).

Islam prevents exploitation in whatever form, and humans are expected to behave responsibly and with accountability. Applying this principle in the corporate world, businessmen are expected to exercise a high level of accountability when undertaking business operations. Apart from the expected accountability to the various stakeholders, they are also expected to act in a way beneficial to the public at large and the broader society.

As far as Islam is considered, the primary accountability is voluntary and paramount, and applies to Muslims in general and businessmen in particular. The main difference between Muslim and non-Muslim businessmen are considered as follows: whereas Muslim businessmen believe in superimposing religious activities in the daily activities, non-Muslim businessmen focus on a secular worldview.

8.4 Trustworthiness

The concept of trustworthiness can be found in Sura al-Anfal (8:27): "O ye who believe! Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you." According to Sura al-Baqarah (2:282): "O ye who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as Allah has taught him; so, let him write. Let him who incur the liability dictate, but let him fear Allah his Lord and not diminish aught of what he owes." All Muslims are expected to conduct a Shari'ah supervisory process and religious audit over all their activities. Such an activity has the capacity to bring in trustworthiness in their decisions and dealings. Compliance with Shari'ah norms facilitates morality in the personal and professional life of any Muslim. History is replete with examples of mighty corporations, governments, and civilizations collapsing because of their laxity in moral norms or

Shari'ah. If moral norms are not reflected in the laws, or if such laws are not implemented effectively by the political authorities, individuals and organizations could be led to a variety of morally objectionable behaviours, including dishonesty, fraud, unfairness, and so on. Classic examples are the Enron and Lehman Brothers cases in the United States and Satyam issue in India.

8.5 Hisba

Under the early Abbasids (750 CE onwards), the institution of Hisba was established to ensure compliance with the requirements of Sharia. An office of local administration, the office of the "inspector of the market", continued into Islam from Byzantine times (Schacht, 1964). This office was called Hisba and the officeholder Muhtasib; its functions were Islamized by entrusting to the Muhtasib the collective obligation in the Holy Qur'an to "encourage good and discourage evil", making him responsible for enforcing Islamic behavior in terms of community affairs and behavior in the market, such as accuracy and honesty in business dealing. Duties traditionally carried out by the Muhtasib include: correct weights and measures, fair trading rules, checking business frauds, auditing illegal contracts, keeping the market free, and preventing hoarding of necessities (Abdul Rahman, 1998). Hisba, like the institution of shura, is a long-standing tradition of Islamic society that can be seen to represent a core element of Islamic corporate governance.

The role of the institution became significant during the expansion of the Islamic state as the number of business and commercial activities expanded, exemplifying the nature and extent of the adoption of an ideal system of sacred law in early Islam.

To what extent the office could be revived in its traditional form is problematical. Nevertheless, the institution of Hisba survives in terms of the right of every Muslim, irrespective of the presence or absence of an officially appointed Muhtasib, to come forward as a "private prosecutor" or enforcer of Islamic standards of governance (Schacht, 1964:52).

9 Aims of corporate governance in Islam

Islamic values require company management and board of directors to perform their duties with satisfying the needs of the shareholders, other stakeholders and Allah. Therefore, corporate governance in Islam aims to enhance accountability, transparency, responsibility and fairness where these values are paramount and introduced in Islam as follows:

9.1 Accountability

Muslims believe that they will be made accountable for whatever they do (i.e., both bad and good actions). The word of accountability is repeated in the Holy Qur'an in different verses.

For instance, Surah Al-Baqarah verse 284 says:

" To Allah belongs all that is in the heavens and all that is on the earth, and whether you disclose what is in your own selves or conceal it, Allah will call you to account for it". Surah Ibrahim verse 51 "That Allah may require each person according to what he has earned. Truly, Allah is swift at reckoning".

The generic sense of accountability in Islam is accountability to God (Allah) and to society for all activities that a Muslim has to carry out. Consequently, each individual is under a "self-monitoring duty" that is an obligation to supervise adherence to his terms of reference and accountability to God and himself.

9.2 Transparency and Disclosure

Islam also requires an obligation of good faith in contracts and dealings. This requires taking positive steps to do the right thing, making full and honest disclosures and performing his obligations correctly. In this way, Allah has encouraged in the following verses (Ayat) transparency:

" O you who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justices between you". (Al-Baqarah: 282) "... and knows what you conceal and what you reveal" (Surah An-Naml:25)

Islamic values emphases on produces true and fair disclosure of financial facts and accurate information to community to pay of accurate Zakat.

9.3 Responsibility

The concept of trustworthiness is stated in Surah Al- Anfal (verse 27): "O you who believe! Betray not Allah and his Messenger, nor betray knowingly your Amanat (things entrusted to you and all the duties which Allah has ordained for you)"

It is a highly regarded virtue in Islam that every individual within an organization is required to subscribe to standards of ethical conduct while carrying out their commercial activities.

10 He OECD (organisation for economic co-operation and development) principles of corporate governance

The OECD (Organization for Economic Co-operation and Development) established Principles in 2004 to assist OECD and Non-OECD members in their efforts to improve corporate governance practices.). The OECD defined corporate governance in its Principles of Corporate Governance (2004) as: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined". Nowadays, the OECD principles of corporate governance serve as a basis in the sphere of international corporate governance having become a specific benchmark for corporate governance issues and being used by other organizations, such as the World Bank. The OECD principles of corporate governance covered the following areas; (OECD (2004).

The Rights of Shareholders and key ownership functions through protecting and facilitating the exercise of shareholders' rights.

The equitable treatment of shareholders by ensuring the equitable treatment of all shareholders, including minority and foreign shareholders.

The role of stakeholders in corporate governance through recognizing the rights of stakeholders that established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

Disclosure and Transparency by ensuring that timely and accurate disclosure is made on all material matters regarding the corporation.

The responsibilities of the board by ensuring the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

A comparison between the Islamic concept of cg (with Islamic concept as the foundation) and the OECD principles

Table 1 Comparison between the Islamic concept of Corporate Governance and the OECD principles

Islamic principle	**OECD principle**	**OECD principle NO.**
Shari'ah – primacy of ethics, justice, and social welfare with social and spiritual obligation	Ensuring the basis for an effective CG framework Equitable treatment of all stakeholders. Responsibilities of the board.	1,3, & 5
Khalifah (Vicegerency) – property as trust from the Almighty	Rights of shareholders and key ownership functions. Primary accountability to God and then to stakeholders. Responsibilities of the board	1&5
Zakat and Sadaqa	Equitable treatment of all stakeholders. Responsibilities of the board.	2&5
Falah	Role of stakeholders in CG. Responsibilities of the board.	3&5
Hisab – Accountability	Disclosure and transparency Responsibilities of the board.	4&5

The table shows that the Islamic concept of CG encompasses all the principles of the OECD in multiple dimensions. A single Islamic principle is found to include multiple OECD principles. The meaning of one Islamic principle is much broader than all the OECD principles. For example, the concept of vicegerency (khalifah) or trusteeship is primarily the "accountability to God Almighty" and then to worldly resources. This meaning has no limit, and all activities of an individual, whether business or otherwise, can be included in this concept. The same holds true for the concept of trustworthiness. The Holy Qur'an (Sura al-Anfal, 27) extols humans by stating: "Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you." These comparisons reveal the comprehensiveness of the Islamic CG vis-à-vis the modern CG. The Islamic principles provided above can absorb other principles that can emerge from the modern concept of CG. Notably, these principles have been envisaged in previous centuries, even before people started thinking about the need for or importance of CG.

11 Conclusion

The purpose of this paper has been to explain the features of corporate governance in Islamic values and explain the existence of principles of good corporate governance in Islam. The paper highlights that the corporate governance is not new in Islam. Also, the above discussion of the Islamic perspective on corporate governance has provided clear differences between the traditional corporate governance perspectives and the Islamic model of corporate governance. The differences have emerged from the understanding of the nature of corporation. In Islam, the corporation is a legal entity of shareholders with proportionate ownership according to participation and profit-sharing ratios, whereas in non-Islamic economy, corporation is a mechanism established to allow different parties to contribute capital, expertise and labor for the maximum benefit of them. The study shows that Islamic corporate governance is driven by faith-based rationalism instead of only economic rationalism. Also, Islamic model of corporate governance sees the social welfare to stakeholders as the main goal of corporation; and Shariah Board acts to ensure that the corporation activities adhere to Islamic principles.

References

[1] Abbasi, A.S., Rehman, K. & Bibi, A. (2010). Islamic Leadership Model

[2] Abdul Rahman, A.R. (1998). ÒIssues in Corporate Accountability and Governance: An Islamic PerspectiveÓ, American Journal of Islamic Social Sciences, 15(1), pp.55- 69.

[3] Al-Faruqi, I.R. (1992). Al-Tawhid: Its implications for thought and life. Kuala Lumpur: Percetakan Zafar Sdn. Bhd.

[4] an Accountability Perspective. World Applied Sciences Journal, 9(3), 230-238.

[5] Brancato, C. K. (1997). Institutional Investors and Corporate Governance: Best Practices for Increasing Corporate Value. Chicago: Irwin.

[6] Cernat. L (2004): The emerging European corporate governance model: Anglo-Saxon, Continental, or still the century of diversity? Journal of European Public Policy. 11.

[7] Choudhary, M.A & Hoque, M. Z. (2006). Corporate governance in Islamic perspective. Governance: The international journal of business in society, 6(2), 116-128

[8] Choudhury, M and Hoque, M (2006): Corporate governance in Islamic perspective, Journal of Corporate Governance, Vol. 6 No. 2, pp. 116-128

[9] Dusuki, A. W. (2006). Corporate governance and stakeholder management of Islamic financial

[10] Hameed, S.M.I. (2001). Islamic accounting: Accounting for the New Millennium, IIUM Asian Pacific Accounting Conference 1 2001, Hotel Perdana Kota Bharu, Malaysia

[11] Hawkins, J. A. (1997). "Why Investors Push for Strong Corporate Boards", McKinsey Quarterly, 3, pp. 144-148.

[12] institutions. Paper presented at National Seminar in Islamic Banking and Finance 2006.

[13] Iwai, K. (2002)." The Nature of the Business Corporation: Its Legal Structure and Economic Functions", The Japanese Economic Review, 53 (3), pp. 1-31.

[14] K. Nasional, "Komite Nasional Kebijakan Governance," 2012.

[15] Keasey, K, Thompsons, S and Wright, M. (1997): Corporate Governance – Responsibilities, Risks and Remuneration, John Wiley & Sons, New York.

[16] Keasey, K, Thompsons, S and Wright, M. (1997): Corporate Governance – Responsibilities, Risks and Remuneration, John Wiley & Sons, New York.

[17] Mallin, C (2004): Corporate Governance, Oxford University Press, Oxford

[18] Mawdudi, A. (1974). Tafhim al-Qur'an: An Understanding of Qur'an. Lahore: Urdu Digest Printers.

[19] McCarthy,D and Puffer, S., (2003): Corporate Governance in Russia, Journal of world Business 38 pp 397-415.

[20] Monks, R. and Minow, N. (2004): Corporate Governance, Blackwell Publishing

[21] Monks, R.A.G. and Minow, N. (1995). Corporate Governance. Cambridge, Mass: Oxford and Blackwell Business.

[22] Nahar, H.S. & Yaacob, H. (2011). Accountability in the sacred context:

[23] O'Sullivan, N (2000): The impact of board composition and ownership on audit quality: evidence from large UK companies, The British Accounting Review, Vol 32, Issue 4, pp 397-414.

[24] OECD (2004). OECD Principles of Corporate Governance. Paris: OECD

[25] OECD, "G20/OECD Principles of Corporate Governance," In OECD Secretary-General. 2015.

[26] Qur'an Surah Al-Anfal, 27

[27] Quran Surah Al-Baqarah: 282)

[28] Quran Surah Al- Anfal (verse 27)

[29] Quran Surah Al-Baqarah verse 28

[30] Quran Surah An-Naml:25)

[31] Quran Surah Ibrahim verse 51

[32] Schacht, J. (1964). An Introduction to Islamic Law. Oxford: Oxford University Press

[33] Shleifer, A and Vishny,R (1997): A Survey of Corporate Governance, the journal of Finance, Vol. LII, No. 2.

[34] Simon, M.C. (1998). "The Rise and Fall of Bank Control in the United States: 1890- 1939", American Economic Review, 88 (5), pp. 1077-1093.

[35] Solomon, J. and Solomon, A. (2004): Corporate Governance and Accountability. Chichester: John Wiley.

[36] The case of management, accounting and reporting of a Malaysian cash Awqaf institution. Journal of Islamic Accounting and Business