

Corporate Governance : Western and Islamic Perspectives

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Islamic corporate governance model in Islam has its own unique features and presents distinctive characteristics in comparison with the western concept of the Anglo-Saxon and the European models. It combines the element of Tawhid, Shura, Shari'ah rules and maintains the private goal without ignoring the duty of social welfare. This paper examines the basic elements of Islamic corporate governance with the Western counterpart in the aspects of conceptual definition, episteme, corporate objective, nature of management and corporate structure.

Field of Research: Corporate governance

1.0 Introduction

Corporate governance in banking has been analyzed very extensively in the context of conventional banking markets. By contrast, little is written on corporate governance from Islamic perspective particularly the governance structures of Islamic finance sector, despite its rapid growth since the mid 1970s and their increasing presence on world financial markets (Yunis, (2007: 308). Undeniably, corporate governance is one of the vital elements of any corporation development and it is even bigger challenge to Islamic finance system due to its additional risk as compared to the conventional banking system. For instance the depositors would become exposed with various kind of risks when the Islamic banks started moving into the risk-sharing modes i.e. *mudharaba* and *musyaraka* (Chapra, 2007: 338). Therefore, it is strongly indicated that any Islamic corporation needs to have a proper corporate governance framework to ensure its growth and success.

2.0 Literature Review

The surveys of Siddiqi, (1981) and Haneef, (1995), on the contemporary literatures on Islamic economic thought prove that there are lack of references and discussion on the topic of corporate governance from Islamic perspective. In addition, Mannan, (1984) in his compilation of abstract of researches in Islamic economics also further shows the absence of specific research on *Shari'ah* governance. Only in 1994, Banaga, et al. published a book entitled External Audit and Corporate Governance in Islamic Banks, A Joint Practitioner-Academic Research Study. Another study was carried out by Chapra and Ahmed (2002) where they produced a book on Islamic corporate governance specifically

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Hasan

focusing on the issue of governance framework of IFI. Both studies however mostly concerns on the issue of auditing, accounting, general framework of corporate governance of Islamic banks rather than providing comparative analysis of Islamic corporate governance with the Western concept. This paper attempts to examine basic elements of corporate governance in Islam with comparison to the Western concept of the Anglo-Saxon and the European models.

3.0 Methodology

As the nature of this paper is theoretical in character, the writer uses simple research methodology by reviewing the existing literatures related with the conceptual, theoretical and foundational framework of corporate governance of the Western and Islamic models. Brief discourse analysis and commentaries on the literatures available provide comparative overview on the basic elements of the Western and Islamic corporate governance approach. The initial study submits that Islam presents distinctive values and special characteristics of corporate governance with aim to uphold and maintain the principle of social justice not only to the shareholders of the firm but to the all stakeholders.

4.0 Conceptual Definition of Corporate Governance

Generally, the definition of corporate governance can be divided into two senses. Firstly, in narrower sense corporate governance can be defined as a formal system of accountability of senior management to the shareholders¹. Secondly, in expansive term, corporate governance includes the entire network of formal and informal relations involving the corporate sector and their consequences for society in general².

A concept of corporate governance from Islamic perspective does not differ much with the conventional definition as it refers to a system by which companies are directed and controlled with a purpose to meet the corporation's objective by protecting all the stakeholders' interest and right. Uniquely, in the context of corporate governance within the Islamic paradigm it presents distinct characteristics and features in comparison with the conventional system as it refers as a special case of a broader decision-making theory that uses the premise of Islamic socio-scientific epistemology which is premised on the divine oneness of God (Choudury and Hoque, 2004).

4.0 Roles of Corporate Governance

If we refer to early academic discussion on corporate governance in the case of United States, it is found that the function of corporate governance is focused on the merits of conglomerate merger and the hostile takeover as mechanism for controlling agency costs (Macey and O'hara, 2004: 580). It evolves into other

Hasan

areas of the role of institutional investors as corporate monitor and to control managerial shirking and more generally to maximize shareholder's value.

In the context of financial services sector, the apex objective of the corporate governance is to ensure fairness not only to shareholders but to stakeholders to be attained through greater transparency and accountability. This is in line with the statement made by Wolfensohn, (1999), former president of the World bank where he views that corporate governance is about promoting corporate fairness, transparency and accountability. Scott, (2003:527) explains the objective functions of corporate governance system as a set of legal rules, incentives and behaviors that support the reliance by investors. The end goal of corporate governance then is to maximize the economic efficiency of the firm.

Choudhury and Hoque (2004: 59) views that *the objective functions of corporate governance in Islam is to define and attain an objective criterion by means of understanding the relations between critical variables supported by policies, programs and strategic coalition. A clear and precise of the objective criterion leads to the determination of such policies, programs and strategies by means of institutional consensus and the exercise of proper instruments as required by the corporation.* These objective functions put *maqasid Shari'ah*³ as the ultimate goal of corporate governance⁴. The corporate governance in Islam and Western plays very essential roles in order to meet the specific goals and objectives of the corporation. Islam adds further value by insisting the element of *Maqasid Shari'ah* which can not be found in the Western concept.

5.0 Western Concept of Corporate Governance

Becht and Barca (2001) and Lewis (2005: 5-29) provide literature review of a number of corporate governance models as possible solutions to solving the collective action problem among dispersed shareholders. The study however focuses only the main two dominant corporate governance systems namely the Anglo-Saxon or "neo liberal" approach and the European models.

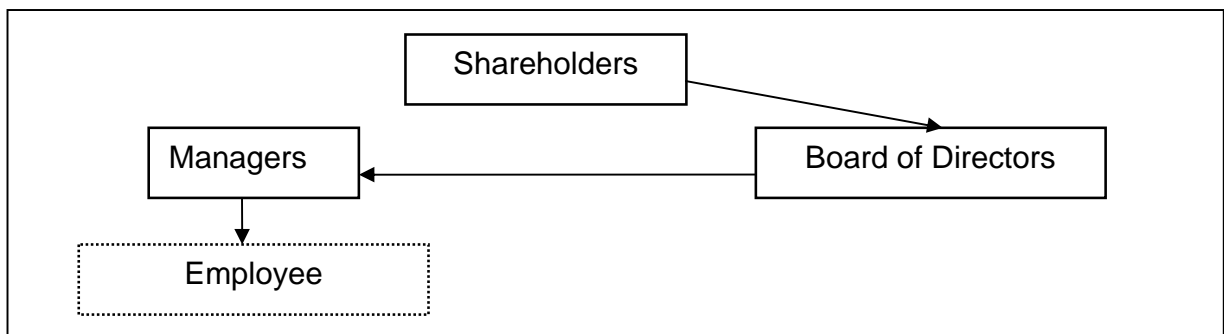
Corporate governance issues arise in the corporation in two situations namely whenever there is an agency problem or conflict of interest involving members of the organization such as board of directors, managers and shareholders and cost of business are such that agency problem can not be dealt with through a normal contract (Hart, 1995: 678). The rationale of the existing corporate governance systems of the Anglo-Saxon, the European and other models are undeniably due to these two issues that need to be dealt with effectively. Each system has its own features, represents different corporate structures and diverse aims of corporation.

5.1 The Anglo-Saxon Model

Hasan

The Anglo-Saxon model of corporate governance which is also known as market-based systems or shareholder-value system or principle-agent model is considered as the most dominant theory championed by the United States and the United Kingdom. Market-based system of the United Kingdom and the United States are characterized by arm's length relationship between corporations and investors who are said to be concerned primarily about short-term returns (Frank and Mayer, 2004). The shareholders value system has been a dominant academic view of the corporation for many years. This is evidenced, beside the United States and the United Kingdom, by the practice of many corporations in other countries which uphold the shareholders system such as Australia, New Zealand, Canada, South Africa and majority of South East Asia Countries. Miller (2004:2) emphasizes that corporate governance concerns with shareholders value. In other word, the individual is sovereign the connection between customer sovereignty and corporate governance just not lies in the benefit customer derives from the corporation's output but the shareholders. The investors or the owners are also customers and that what drives shareholders-value principles.

Figure 1: The Anglo-Saxon Model of Corporate Governance.



Source: Cernat, (2004: 153).

The figure 1 appears to show that the Anglo-Saxon model based on the corporate concept of fiduciary relationship between the shareholders and the managers motivated by profit-oriented behavior. This conception is derived from the belief of market capitalism whereby the interest and the market can function in a self-regulating and balanced manner. One of the most distinctive aspects of the Anglo-Saxon system is the structure of corporate ownership where the share ownership is widely dispersed and shareholders influence on management is weak. That is the reason why in the Anglo-Saxon system, the corporation really needs strong legal protection to protect the shareholders. In short, the central preoccupation of corporate governance in the Anglo-Saxon system is to protect the interest and rights of the shareholders.

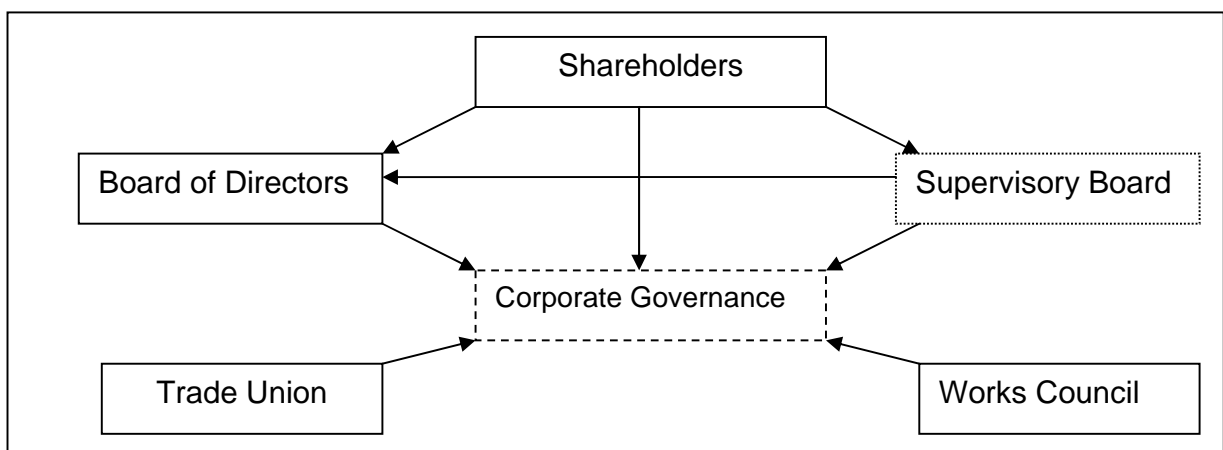
5.2 The European Model

Hasan

Since the publication of Berle and Means (1932), many have believed that there are significant problem with the Anglo-Saxon model. Another approach of corporate governance was introduced known as the Stakeholders or the European model. In this system, companies raise most of their external finance from banks that have close, long term relationships with their corporate customers. The Stakeholders model is focused on a relationship-based model that emphasizes the maximization of the interests of a broader group of shareholders (Adams, 2003: 4). The Stakeholders model of corporate governance is practiced by majority of the European countries such as German, France, and Greece where many large firms are part of social and economic structure. In addition, Scott, (2003: 533) writes that the proposal for reform in the South Korean corporate governance system also suggest the introduction of the European model of supervisory board or two-tier system and allowing banks to own greater equity shares in the corporation.

The European model or stakeholder theory rejects the three main propositions of the American model namely all stakeholders have a right to participate in corporate decisions that affect them, manager's fiduciary duty to protect the interest of all stakeholder and the corporation's objective to promote the interest of stakeholder and not only shareholders (Iqbal and Mirakhor, 2004: 46). The term stakeholders refer to groups of constituent who have legitimate claim on the corporation or a person who contributes directly or indirectly to the firms (Freeman, 1984: 46). Lepineu classifies the stakeholders into shareholders, internal stakeholders, the operational partners and the social community. Special attribute of the European model of corporate governance system is the practice of the two-tier system as in Germany or the French known as "*conseil de surveillance*", comprising a supervisory board of outside directors and a separate management board of executive directors, in which structure the two boards meet separately (Yvon and Salma, 2005:7).

Figure 2: Corporate Governance of the European model.



Source: Cernat, (2004: 153).

Hasan

In Germany, corporate governance framework mainly concerns on a few hundred large firms with more than 2000 employees and listed on the stock exchanges and operating on the two-tier system i.e. supervisory and management board system. The legal system does not play much role in German corporate governance. A two-tiered system consists of management board and supervisory board which have the power to elect the management board. The supervisory boards however do not have much decision-making responsibility and codetermination undermines its monitoring effectiveness. For shareholders to sue management in case of negligent or tort, it would take a majority or 10 per cent at a general meeting to file a court petition (Scott, 2003: 529-530). The same conception is also being practiced in France where the board of directors and the managers hold duties not only to the company itself but to employees, the trade union, the works council and to the public at large (Snyder, 2007: 238-239).

6.0 Islamic Corporate Governance Model

Generally, it is observed that the main objective of the corporation including the so called Islamic corporation is to maximize the shareholder's value of wealth. This implies that in actual practice, many Islamic corporations adopt the Anglo-Saxon model of corporate governance (Lim, 2007: 737-738). The proponents of the Anglo-Saxon continuously attempt to defend their model and the opponents strongly criticize them especially in the aspect of principle-agent relationship or the agency problems. In the context of Islamic corporate governance, there are a few studies have been carried out particularly IFIs to come up with alternative models of corporate governance.

The studies seem to suggest that Islamic corporation may adopt a totally different model of corporate governance or a modified version of the Stakeholder-oriented model as an alternative for its corporate governance framework. The former refers to the corporate governance model based on the principle of consultation where all stakeholders share the same goal of *Tawhid* or the oneness of Allah (Choudury and Hoque, 2004) and the latter concerns on adopting the stakeholders' value system with some modifications (Iqbal, and Mirakhor, 2004) and (Chapra and Ahmed, 2002).

6.1 *Tawhid* and *Shura* Based Approach

Although all the Islamic economists or Muslim jurists agree on the concept of *Tawhid* as one of the philosophical pillars of Islamic economic⁵, it is observed that little is written on the *Tawhid* epistemological methodology to the issue of corporate governance. Fortunately, Choudhury and Hoque, (2004) discuss the fundamental Islamic epistemology of *Tawhid* on their corporate governance model.

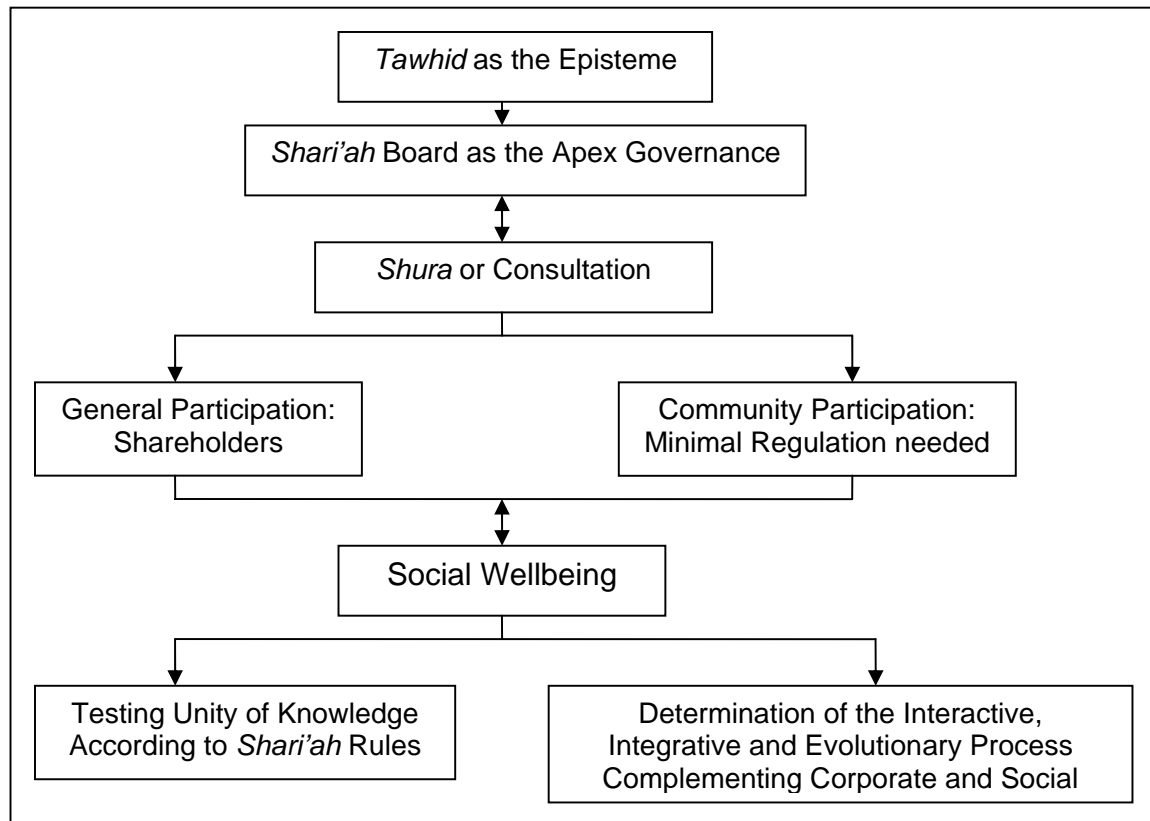
Hasan

As the foundation of Islamic faith is *Tawhid* (Al-Faruqi, 1982), the basis for the corporate governance framework also emanates from this concept. Allah says in *al-Quran* “Men who celebrate the praises of Allah standing, sitting, and lying down on their sides, and contemplate the wonders of creation in the heavens and the earth, (with the thought): “Our Lord! Not for naught Hast thou created all this! Glory to Thee! Give us Salvation from the penalty of the Fire” (3: 191). This verse provides fundamental principle of governance where everything created by Allah has a purpose and human being is created to be the world’s vicegerent. By putting a trust to mankind as a vicegerent, Allah plays actively roles to monitor and involve in every affairs of human being and He is aware and knowing everything all the times (Chapra, 1992: 202). As Allah knows everything and all mankind is answerable to Him, the principle of *Tawhid* shall be the foundation of the corporate governance model in Islam as the parties involved in the corporation are answerable and accountable to Allah.

According to Choudhury, an Islamic corporation is “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, 2004: 58 and 83). There are four principles and instruments governing Islamic governance i.e. extension of *Tawhid* unity of knowledge via interactive, integrative and evolutionary process to the interacting enviroing factors, the principle of justice, the principle of productive engagement of resources in social and the principle of economic activities and recursive intention amongst the above stages. All of these principles are the main premises of the Islamic corporate governance where the *Shari’ah* rules embedded in *al-Quran* and *al-Sunnah* make the Islamic corporation market driven and at the same time uphold the principle of social justice (Choudury and Hoque, 2004: 57-83).

Hasan

Figure 3: *Tawhid* and *Shura* Based Approach.



Source: Choudhury and Hoque, (2004: 86)

The figure 3 shows that the Islamic corporate governance approach is premised on the *Tawhid* epistemological model whereby the functional roles of corporation are working via the *Shari'ah* rules. The principle of *Tawhid* derives important concept of vicegerency (*khilafah*), trust (*amanah*) and justice or equilibrium (*al-adl wal Ihsan*). The stakeholders as vicegerent of Allah have fiduciary duty to uphold the principle of distributive justice via the *Shuratic* process. Chapra, (1992:234) mentions that the practice of *Shura* is not an option but it is rather an obligation. The constituent of *Shura* provides widest possible participation of the stakeholders in the affairs of the state including corporation either directly or via representatives.

There are two main institution involved in the above process of corporate governance namely the *Shari'ah* board and the constituent of *Shura's* groups of participants i.e. all the stakeholders. In determining the scope of *Shari'ah*, the institution of *Shari'ah* board comes into a picture and it plays crucial role to ensure that all corporation activities are in line with the *Shari'ah* principles. In addition, the shareholders also play a big role as active participants and conscious stakeholders in the process of decision making and policy framework by considering the interest of all direct and indirect stakeholders rather than

Hasan

maximize their profit alone. The other stakeholders including community should also play their roles to provide mutual cooperation to protect the interest as a whole and to stimulate the social wellbeing function for social welfare. All of these processes are centered on toward fulfilling the ultimate objective of Islamic corporate governance of complementing the private and social goals via upholding the principle distributive justice (Choudury and Hoque, 2004: 85-88).

The *Tawhid* and *Shura* based approach provides the epistemological foundation of Islamic corporate governance. This approach however seems to be unclear and ambiguous as to how it could be adopted and implemented in the current corporate governance system. Moreover, the practice shows that major corporations including IFIs tend to follow the existing corporate governance model which is founded on the episteme of rationalism and rationality. It is a time to focus more on the empirical studies rather than theoretical to study and examine the operational aspects of this *Tawhid* and *Shura* based approach.

6.2 Stakeholders Based Approach

Chapra and Ahmed, (2002: 13-20) in their research on corporate governance of IFIs emphasize on the notion of equitably protecting the rights of all stakeholders irrespective of whether they hold equity or not. This seems to support the model proposed by Iqbal and Mirakhor, where they view that the corporate governance model in Islamic economic system is a stakeholder-centered model in which the governance style and structures protect the interest and rights of all stakeholders rather than the shareholders per se⁶(Iqbal and Mirakhor, 2004: 43, 48). Their main arguments are based on two fundamental concepts of Islamic law namely principle of property rights and commitment to explicit and implicit contractual agreements that govern the economic and social behavior of individuals, society and state. These two principles provide strong justification for the notion of classifying Islamic corporate governance as a stakeholder-oriented model. In addition, Nienhaus, (2003: 290) states that Islamic corporate governance should be based on value oriented and promote the principle of fairness and justice with respect to all stakeholders⁷.

The principle of property rights in Islam clearly provides a comprehensive framework to identify, recognize, respect and protects interest and rights of every individual, community, the state and corporation. In fact, rights of ownership, acquisition, usage and disposition of the property itself are considered as property (*al-mal*) which has beneficial use and value. In term of the rights of ownership, Islam declares that Allah is the sole owner of property and human being is just a trustee and custodian in which it implies the recognition to use and manage the properties in accordance with the *Shari'ah* rules (Iqbal and Mirakhor, (2004: 50). There are various verses of al-Quran mentioned the principle of property rights and one of them is in surah 57:7 Allah says: *Believe in Allah and His Messenger and spend of that whereof He made you trustee*". The implied

Hasan

meaning of this verse lays down the principle of property's ownership where the mankind is only regarded as a trustee of God.

Beside, Islam recognizes private and society or state ownership. This implies the recognition of individual ownership in corporation as shareholders and at the same time *Shari'ah* rules provide guidelines to the individual, corporation and the state on how to deal with the property ownership. In short, the concept of property rights in Islam is based on these fundamental principles i.e. the rights on the property is subjected to *Shari'ah*, the enjoyment of rights to property is balanced with the rights of society and the state, every individual, society and the state is stakeholders and the recognition of rights of stakeholders by Islamic law (Iqbal and Mirakhor, (2004: 54).

Contractual framework is also very unique in Islam. In *al-Quran surah 5:1* Allah clearly reminds the Muslims on the principle of fulfilling each of their contractual obligations where He says: "*O you who believe, fulfill contracts*". This verse presents a basic foundation the notion of contract that every individual, society, corporation and the state are bound by their contracts which defines the rights and obligations of the parties. In relation with the issue on corporate governance, each stakeholder has duty to perform his contractual obligations in accordance with the term stipulated in the contract directly or indirectly. For example, the shareholders has duty to provide business capital, the management to manage and run the business, the employees to perform their respective duties and the state to ensure enforceability of the contracts in case of violation by any party. All of these duties arise through contractual framework and they are subjected to the rules of *Shari'ah*. In short, the principle of contract in Islam establishes guideline to identify and qualify who is a rightful stakeholder. Iqbal and Mirakhor (2004: 58) formulate two tests to determine any individual to qualify as a stakeholder, firstly, whether the individual or group has any explicit and implicit contractual obligations and secondly, whether the one whose property rights are at risk due to business exposure of the corporation⁸.

The Islamic corporate governance based on stakeholders-oriented model is preoccupied by two fundamental concepts of *Shari'ah* principles of property rights and contractual frameworks. The governance of any corporation in Islam is ruled by *Shari'ah* where all the stakeholders including the shareholders, the management, other stakeholders such as the employees, the suppliers, the depositors and the community. The *Shari'ah* board plays a role to advise and supervise the operation of the corporation so as to ensure that it complies with the *Shari'ah* principles. The board of directors acting on behalf of the shareholders has duty to monitor and oversee overall business activities and the managers have fiduciary duty to manage the firm as a trust for all the stakeholders and not for the shareholders alone. The other stakeholders such as employees, depositors, customers have duty to perform all of their contractual obligations. In addition, the state as a stakeholder will be the external institution to provide regulatory framework and its enforcement.

Hasan

Having analyzed the stakeholder based model approach, it is important to highlight a few issues on the arguments put forward by Iqbal and Mirakhor (2004). Chapra, in his critical review on the Iqbal's arguments comments that while most of the arguments are positively supported the stakeholder model and acknowledged the stakeholders rights, they do not demonstrate as to how to ensure that these rights are protected. The argument that the observance of rules of behavior guarantees internalization of stakeholder rights seems difficult to be materialized. Chapra argues that Islamic norms had become internalized in the Muslim society in classical period of Islamic society and it does not work in today's society (Chapra, 2007: 329-330). In this aspect, he views that there are other factors need for the internalization of stakeholder rights such as well-functioning competitive markets and proper legal framework for the protection of stakeholders. Another debatable argument refers to the task of designing a corporate governance system to be solely the prerogative of Islamic government. It is the duty of Islamic government to regulate the rules and legislation to specify the appropriate corporate governance structure. This argument raises a few issues such as a proper definition of Islamic government and as to how to design the corporate governance structure of Islamic corporation in the countries where the Muslims are minorities.

The overall arguments of providing theoretical foundation of the stakeholder model of corporate governance in Islamic economic system try to establish that the firm's objective is to maximize the welfare of all stakeholders and not the shareholders alone. It is observed however that the main objective of many corporations including the so called Islamic corporation is to maximize the shareholder's value of wealth. This implies that in actual practice, many Islamic corporations adopt the shareholder model of corporate governance rather than the stakeholder model⁹. Therefore, the issue before researchers and scholars is to come up not only with theoretical foundations of Islamic corporate governance but to support it with empirical evidence and appropriate case studies as to the actual corporate governance practice and possible transformation.

7.0 Conclusion

The design of corporate governance model in Islam has its own unique features and presents distinctive characteristics in comparison with the western concept of the Anglo-Saxon and the European model. The study summarizes the diversities of these three models and classifies them into four aspects namely the episteme, the corporate objective, the nature of management, the management board and the capital-related ownership structure. It is worth mentioning that the following comparison is based on the general characteristics of the Anglo-Saxon and the European Models. Undeniably, both models evolve and their features may change and transmit into another form and even a convergence.

Hasan

Aspects	The Anglo-Saxon	The European	Shari'ah Model
Episteme	Rationalism and Rationality	Rationalism and Rationality	<i>Tawhid</i>
Objective			
Rights and Interest	To protect the interest and rights of the shareholders.	The right of community in relation of the corporation.	To protect the interest and rights of all stakeholders but subject to the rules of <i>Shari'ah</i> .
Corporate goal	Shareholders controlling managers for purpose of shareholders profit	Society controlling corporation for purpose of social welfare	Acknowledge profit motive oriented but balance it with the <i>Shari'ah</i> objective and principles
Nature of Management	Management dominated	Controlling shareholder dominated	Concept of vicegerency and <i>Shura</i>
Management Boards	One-tier board	Two-tier board	Two-tier board. <i>Shari'ah</i> board as the ultimate governance
Capital-related and Ownership structure	Widely dispersed ownership; dividends prioritized	Banks and other corporations are major shareholders; dividends less prioritized	Shareholders and depositors or investment account holders

The above simplified version of the differences of Islamic and western concept of corporate governance provides an overview of the different approaches of corporate governance style and structure. In the aspect of epistemological method, Islam rejects the rationality and rationalism as the episteme of *Shari'ah* corporate governance and replaces it with the episteme of *Tawhid* or oneness of Allah. While the Anglo-Saxon model prioritizes the shareholders' value alone and the European model protects all the stakeholder's interest and rights, the Islamic corporate governance objective puts *maqasid Shari'ah* as the ultimate goal and this entails the notion of protecting the interest and rights of all stakeholders within the *Shari'ah* rules. The nature of management of Islamic corporate governance model is premised on two fundamental principles of *Shura* and interactive, integrated and evolutionary process and the apex level of management is the *Shari'ah* board that is responsible to supervise and oversee the overall corporate activities so as to comply with the *Shari'ah* principles. In contrast to the western concept, the nature of ownership structure in Islamic corporate governance considers the shareholders and the investment account holders as the rightful owners rather than the shareholders alone. The distinct features and characteristics of Islamic corporate governance combines the element of *Tawhid*, *Shura*, Interactive, Integrated and Evolutionary Process,

Hasan

Shari'ah rules or Islamic law and maintains the private goal without ignoring the duty of social welfare.

The model of corporate governance system in Western perspective raises an issue of the design of an efficient corporate governance structure of the IFI within an Islamic paradigm. As an observation, the initial study finds that the corporate governance model in Islamic economic system is premised on the epistemological of *Tawhid*. In addition, the nature of corporate governance's goal is inclined toward the stakeholder value model where its governance style aims at protecting the stakeholders as a whole. In considering an Islamic view of the definition of the stakeholders, it enhances the interpretation beyond to those participate in governance of the corporation to the religion of Islam itself. Therefore, the corporate governance model from *Shari'ah* perspective considers Islam as the supreme stakeholders beside the other stakeholders' entity. The concept of Islam as the sovereign stakeholder affects the structure of the corporate governance system where it puts the *Shari'ah* as the governing law of all affairs of the corporation in which leads to the establishment of the *Shari'ah* board as part of the corporate governance institutions.

¹ Shleifer and Vishny (1997:737) states that it deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Cadbury Report (1992) explains corporate governance as the system by which companies are directed and controlled.

² Mesnooh, (2002: 8) views it as a code aiming at greater managerial transparency, responsibility and shareholder equality. Another broad definition regards it as an institutional framework in which the integrity of the transaction is decided. It encompasses not only the internal structure of corporation but also external environment including capital and labor markets, bankruptcy systems and governmental competition policies (Salacuse, 2003:35).

³ *Maqasid Shari'ah* means protection of the welfare of the people, which lies in safeguarding their faith, life, intellect, posterity and wealth (Al-Ghazali, 1937: 139-140).

⁴ Grais, and Pellegrini, (2006:2) state that there are two broad set of corporate governance issues which are exclusive to IFI. Firstly it refers to the need to reassure stakeholders that IFI activities fully comply with the *Shari'ah* principles. Secondly, the stakeholders also need to be assured that the IFI to maintain and improve growth and able to prove the efficiency, stability and trustworthiness. The role of corporate governance is to reconcile these two main issues so as to meet the requirement by the *Shari'ah* and in the meantime to satisfy the natural aims of corporation i.e. to maximize the profit.

⁵ See Mannan, (1970), Siddiqi, (1978), Kahf, (1978), Ahmad, (1980), Naqvi, (1981), Taleghani, (1982), Al-Sadr, (1982) and Choudhury, and Malik, (1992).

⁶ Archer and Rifaat, (2007) view that the corporate governance of IFI is inclined toward the stakeholders' value based model. This is because the nature of corporation particularly of the directors and the management owe fiduciary duties of care and loyalty to the shareholders and also other stakeholders including especially the investment account holders. Wajdi, (2008: 391-413) further supports the notion of stakeholder oriented model in Islamic financial sector where he provides the pyramid of *maslahah* as a devise or mechanism to protect rights and interests of various stakeholders.

⁷ Interestingly, Nienhaus, (2006: 298-301) puts an issue whether the depositors of Islamic banks need for representative in boards for more efficient corporate governance supervision as in some corporation in Germany. He concludes however that the said notion will not be effective in the case of Islamic banks are exposed to competition. This strongly implies that the corporate governance of IFI is more toward the stakeholders' value model.

⁸ This is in line with the saying of the Prophet: "A Muslim is the one from whose hand others are safe" (*Sahih Bukhari*, Volume 1, Book 2, Number 10).

Hasan

⁹ For instance a study conducted by Lim, (2007: 737-738) on the corporate governance reform in Malaysia found that majority of the companies prefer to adopt the Anglo-Saxon model of corporate governance as a benchmark against the best system in the world as practiced by the United Kingdom and United States.

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Hasan

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