CONTRIBUTION OF THE ISLAMIC WORLDVIEW TOWARDS CORPORATE GOVERNANCE

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I. INTRODUCTION

Today's world of business is facing grave corporate governance malaise. The collapse of huge and well established companies like Enron, WorldCom debacles, Global Crossing and Adelphia have evidenced us on how critical the issues of corporate governance nowadays. Due to this, the credibility of the accounting profession especially has been diminished severely. Public begin to criticize openly on how accountants perform their professional duties in providing the true and fair view of the financial position of their client's company. Many recommendations and solutions have been put forward to resolve these governance problems, yet none of them seems to be effective. Public then may wonder, *"Why it is so difficult to promote good corporate governance?"*

In actuality, the underlying concept of corporate governance is neither unknown nor alien from the Islamic point of view. Corporate governance as far as we are concerned is aim at enhancing accountability, transparency as well as trustworthiness. These values are at paramount in Islam. Hence, we could say that the principles and the objectives of corporate governance are verily familiar to us although some may say that the corporate governance concept is recently realized. In fact, Islamic approach is deemed relevant in promoting good corporate governance in business organization. Through the guidance of Islam, success could be attained by maintaining high human idealism, by fulfilling high spiritual and ethical requirement in all human affairs including business activities. In Islam, business activities concerned with two respects namely the physical aspects of life as well as meeting one's spiritual needs.

This paper will attempt to answer this question by arguing the recommendations provided in the Western and at the same time propose the Islamic worldview as the core ingredient to improve effective corporate governance. The remaining sections of this paper therefore, will be ordered as follows: The next section will discuss the Islamic worldview. The Islamic concepts and values on corporate governance will be dealt then. This is followed by the corporate governance section. Subsequently the role of Islamic worldview on the effective corporate governance will be discussed in great depth. Before we conclude this paper, a proposal on the effective corporate governance framework will be presented. The final section will be the conclusion of the study.

II. ISLAMIC WORLDVIEW

The word "Islam" is derived from the origin words of S L M. It epitomizes variety of connotations. Customarily, Islam typifies al-Din, submission, surrender, obedience as well as peace (al-Faruqi 1982). This has manifested that a man can only attain true peace of physical and spiritual via full surrender, obedience and submission to Allah the Almighty. This has been irrefutably mentioned by Allah in the Quran (13: 28-29). A man will become a Muslim once he has verbalized the "Shahadah". "Shahadah" signifies there is no God except Allah and Muhammad (peace be upon him) is His prophet. A real Muslim will carry three essential elements namely "Iman" (faith), "amal" (action) as well as "ihsan" (Realization).

Worldview or underlying philosophy or *weltanschauung* on the other hand, epitomizes how man perceives this world. Worldview denotes *"a set of implicit or explicit assumptions about the origin of the universe and the nature of human life"* (Chapra 1992, pp. 1). Conventionally, every community or system is controlled or influenced by its own worldview. The different worldviews among these communities or systems will eventually lead to dissimilar end means of human life. Other aspects of life such as ultimate possession, cramped resources by virtue of human beings disposals, the relationship among men in term of rights and responsibilities, their surrounding environment as well as their interpretations of efficiency and equity will also be different (Chapra 1992).

On the other hand, according to Al-Attas[1[1]] (1994), from the Islamic point of view, worldview is considered as vision of reality and truth (ru'yat al-Islam li al-wujud). He then further interprets the Islamic worldviews as "*a metaphysical survey of visible as well as the invisible worlds including the perspective of life as a whole, is not a worldview that is formed merely by the gathering together of various cultural objects, values and phenomena into artificial coherence*". (p. 26). Hence, as far as Islamic nature of reality (ontology) is concerned, Islamic worldviews concern with this universe (world) and the hereafter or the Day of Judgment. The belief in dual worldviews has made Islam looks exceptional and peculiar (Izetbegovic 1984). Since these views are principally derived from the Quran, this reflects that Islamic worldviews are identical to Quranic worldview. Unlike in the Western, their emphasizing is on logical reasoning as well as illumination of rationality. Due to this, Islam has distinguished itself from other available worldviews (Khurshid Ahmad as cited by Mawdudi 1988). For instances, the Western's and Christian‘s worldviews are secular and religious respectively.

The ontology as far as the Quranic view is concerned, entails diversity of purports (Mawdudi 1998). Human being has been invented by Allah with the purpose to rule this world as a khilafah (vicegerent). As the best creature ever created, man has been equipped with remarkable qualities such as aql (mind), feeling (intuition) as well as the beautiful physical. These virtues on the other hand, have enabled man to better reflects, understand and distinguish between good and bad. With all these advantages man ought to worship Allah and not to interpret himself as autonomous. Thus, this has made Islamic concept of leadership different from other systems.

Islam perceives world or earth only as a transit for man to the perpetual life in the hereafter. Muslims believe that world is a place where they are accountable to other Allah's creatures as well as to Allah Himself. These believe have limited the Muslims conducts. Muslims can neither free to act as they wish nor follow the wishes of any groups. Every man will be judged on the reckoning day for what ever deeds he or she has done during his or her life in this world. If good deeds are more than bad deeds, this will promise an everlasting place in Jannah (paradise) while

[1[1]] Please refer to Islam and the Challenge of Modernity, Proceeding of the Inaugural Symposium on Islam and the Challenge of Modernity: Historical and Contemporary contexts, Kuala Lumpur, August 1-5, 1994 hell is waiting for those who have chosen to defy Allah's command or bad deeds more than good deeds.

Allah has manifested His right way by means of the Prophets. The ultimate duty of these prophets with revelations was to transform humanity from a state of Jahiliya (Lost in the earthly life) to a true Muslim. Allah manifests in the noble Qur'an: *"I have not created the jinn and ins (human beings) except to worship Me"* (51:56). Prophets such as Muhamad, Isa, Daud and Musa (pbut) have received revelation from Allah in the form of scriptures. These prophets were inherently carried similar paramount messages from Allah which is to worship and obey all His commands. Although these Prophets carried similar ingrained commandments, the details were not identical. The differences were depending on the condition, nation as well as the Prophet who was in charge. Muhamad (pbuh) was the last Prophets govern this world. He was very special in the eyes of Allah. This has been evidenced by Allah via Quran. Quran is the last scripture revealed by Allah and Its will lead man until the day of reckoning. Quran is a complete scripture as compared to others which consists all-inclusive doctrine as well as some particulars on many dimensions of human life.

Table 1: Implications of Different Worldviews on Man's Way of Life

Types	*Worldviews*	*Man's Way of Life*
Western	Secularism	Separation between religion and other aspects of life, materialistic, individualistic, less socio economic justice
Christian	Religious	Less public relations, less concern with the worldly life
Islam	Dual worldviews: • In this world • In the hereafter	Maslahah of the ummah (public benefit), accountability, trustworthiness, transparency etc.

III. ISLAMIC CONCEPTS AND VALUES ON CORPORATE GOVERNANCE

There are four values which the authors believe to be essentially associated with the concept of corporate governance namely khilafah, accountability, transparency as well as trustworthiness. These concepts are mainly derived from the Islamic worldview. Hence, this part will look at these concepts in quite depth.

Khilafah

Khilafah refer to the role, status as well as the man kind's responsibilities to themselves and to the ummah as a whole. According to Abdalati (1994), khilafah are the relationship between man and god, man and his fellow men, man and the other elements and creatures of the universe man and his innermost self. This means, every human has the responsibility to all Muslims for what ever deeds they have done with regards to the resources that God (Allah) has given to him or her.

Human principally has been assigned to safe guard this world which belongs to Allah (Quran 2:30). And, on the day of reckoning every human being will be accountable for his or her conduct in this world (Haniffa 2002) which will determine their true end whether to the heaven or to the hell. As what we have perceived, Khilafah has stem four implications which are universal brotherhood, trustees for God's resources, humble lifestyles and human freedom in Islam (Chapra 1992).

In governing the corporation, man is seen as the central element for the system to be effectively working in the right route. As man is the shareholder, creditor, auditor, regulator, manager as well as the director thus, its manifest that man plays the paramount roles in managing and lead to the attainment of company's vision and mission. The issues of man in term of values, ethics and moral conduct therefore need to be well apprehended in the first place to ensure the anxiety of the society could be taken care. The concern among other things are upholding trust, maintaining integrity, exercising transparency and accountability, conservative in managing resources, caring and concern of the environment. The failure to ingrain these values may pose grave problem to the company as well as to the public at large.

Accountability

In terms of accountability Muslims believe that they will be accounted for whatever they do in this world in the hereafter (life after death). In Islam, Muslims verily have to fulfill the will of Allah in order to seek his rida' (pleasure) and the promised rewards in the hereafter. Thus, it requires every deed and word in this world must be in line with the Islamic teachings. It does not matter what activity the Muslims do either ibadah (solah) or purchasing shares in the stock market, they must follow the Islamic teaching framework carefully. The importance of accountability to the man's life also has been manifested by the prophet of Islam as: *"Each one of you is a guardian and each guardian is accountable to everything under his care".*

In the view of corporate governance practices, as far as Islam is concerned, the company directors, management as well as the auditor should perform their professional duties with the objective of satisfying the needs of the shareholders and to Allah as well. Supposing, there should be no such malaise (i.e. fraud; material misstatement) exist in the company if this concept could be internalized and could be reflected in their conducts. Unfortunately, most of them have been shadowed by the material worldly life which has led to the bad conducts that cause the owners (shareholders) of the company suffer the consequences.

Transparency

The concept of transparency has been divulged by Allah in the following ayat: *"O you who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe writedown faithfully as between the parties…"* (Al-Baqarah 282, Beginning of the Ayat). This verse states that every transaction must be written to avoid justice.

As corporation is responsible to a wide spectrum of stakeholders, its aim should not focus strictly on monetary values but also on social responsibility to the ummah. Applying the concept of transparency, corporation should also disclose information regarding its policy, activities undertaken, contribution to the community and the use of resources and protection of environment (Haniffa, 2002).

Trustworthiness

The concept of trustworthiness has been irrefutably stated Via Surah Al Anfal (Verse 27): *"O ye who believe! Betray not the trust of God and the Apostle, nor misappropriate knowingly things entrusted to you"*. The Holy Prophet (pbuh) also spelt out the significance of trustworthy businessmen in the following: "Righteous businessmen will be the first to enter paradise". In another saying, he said: "A truthful merchant will be raised on the Day of Judgment together with the truthful and the martyrs". Trustworthiness is also parallel with the concept of accountability whereby man in his judgement towards his action is influenced by the fear that he will be accounted by Allah.

As trustworthiness is one of the highly regarded virtues in Islam, every individual within an organization is required to subscribe to ethical and moral practices while carrying out their commercial activities. The stewardship sense will lead all to utilize the possessions entrusted upon them by Allah to the best of their abilities as a form of submission to Him. Leaders will be judged not by how big the wealth has grown but by how well wealth is managed using the principles as clearly laid down by Islam.

In developing good corporate governance all these virtues are deem significant to be nurtured in the culture of the company. The so called religious belief corporate culture will affect the corporate governance to the great extent. It can also be considered as the system of shared values and belief in which people within the organization interact to each other. Such circumstances will impetus the system as well as the structure of the organization in producing values and norms.

IV. CORPORATIONS: AN ISLAMIC PERSPECTIVE

Historically, trade has been seen as a major contributor to the Islamic civilization. The special place of trade in Islam has also been manifested by Allah in the Quran. Although trade is encouraged in Islam but riba (usury) is totally unacceptable as Allah has mentioned in the Quran (2: 275-276) *"trading is permitted but riba (usury) is forbidden"*. Riba is prohibited because it concentrates wealth and nurture inequality via exploitation. In addition, Islam also forbids speculation, gambling and hoarding. This has been evidenced through these following ayahs:

يَا أَيُّهَا الَّذِينَ آمَنُواْ إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ وَالأَنصَابُ وَالأَزْلاَمُ
رِجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ فَاجْتَنِبُوهُ لَعَلَّكُمْ تُفْلِحُونَ

O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination, - of Satan's handwork: eschew such (abomination), that ye may prosper (5:90).

يَا أَيُّهَا الَّذِينَ آمَنُواْ إِنَّ كَثِيرًا مِّنَ الأَحْبَارِ وَالرُّهْبَانِ لَيَأْكُلُونَ أَمْوَالَ
النَّاسِ بِالْبَاطِلِ وَيَصُدُّونَ عَن سَبِيلِ اللّهِ وَالَّذِينَ يَكْنِزُونَ الذَّهَبَ
وَالْفِضَّةَ وَلاَ يُنفِقُونَهَا فِي سَبِيلِ اللّهِ فَبَشِّرْهُم بِعَذَابٍ أَلِيمٍ

O ye who believe! there are indeed many among the priests and anchorites, who in Falsehood devour the substance of men and hinder (them) from the way of Allah. And there are those who bury gold and silver and spend it not in the way of Allah. announce unto them a most grievous penalty (9:34)

However, nowadays, the core anxiety of people is that trade can cause the economic entity to neglect ethical duty (Abdul Rahman 1998). As far as Muslims are concerned, Islam has the fundamental principles which could be used as guidance to coordinate corporate dealings. The concept of corporations has been existed since the age of Prophet Muhamad (pbuh). During this era, lots of people involve in commercial ventures by pooling their resources. This act was very similar to the notion of modern corporation nowadays. For instance, “al-inan” (limited partnership) in Islam is akin to the concept of joint stock companies which resembles the limited partnership. This concepts of partnership (limited partnership) entails two or more individuals form a business where they agree to contribute capital, share the profits as predetermined before the business started and also have agreed to bear the losses based on their capital contribution in case the business face failure. Here, the partners’ liability is limited. The members’ works and performance will be monitored by the board of directors. As the representatives of the company’s shareholders board of directors carry a responsibility to ensure the members perform their duty within their capacity and act for the sake of the business instead of their personal interest.

Mudharabah is another form of partnership in Islam which akin to the modern joint stocks venture. It is a form of partnership where one party supplies the capital whereas another party will run or operate the business. The profit will be distributed based on the predetermined profit ratio. This notion of mudarabah has number of similarities with the modern joint stock companies. This is evidenced by the disaffiliation of control and possession or ownership. In other words, the capital providers will not going to involve in the daily business operations. Besides, there is unlimited number of shareholders being practiced. Also, share transfer is allowed and will not cause the company to dissolve.

The only problem of this modern corporation is the inability to comply with certain values in Islam as well as the Shari’ah requirements. Thus, in order to make this system in line with the Shari’ah, the companies act need to be revised accordingly to the Islamic Law and the ultimate goals of the corporation need to be altered from profit maximizing alone to also nurture the socio economic justice (Abdul Rahman 1998). Apart from revising the law as well as to ultimate goals of the companies, the role of the leaders (managers) should not be ignored. In fact, perfect rules, regulations and planning are useless without proper implementation as well as supervision by the managements and board of directors respectively.

According to Khalifah Ali, there ought to be certain qualities before a person can be a leader. Some of these qualities are outlined in the Quran where Allah addresses the prophet;

> *"It was by the mercy of Allah that you (O Prophet) were lenient with them, for if you had been stern and hard-hearted, they would have dispersed from around you. So forgive them and seek mercy for them and consult with them in the conduct of affairs. And when you have resolved [on an issue], then put your trust in Allah. Lo! Allah loves those who put their trust in Him"* (3:159).

A few matters are pointed out here such as a leader must be kind hearted, compassionate and forgiving towards their people. If he is cruel to them, they will cease him. When a decision is made he must consult them. Allah then further mentioned that no weaknesses should be shown and the policy be pursued with single-minded of purpose, determination and boldness. Khalifah Ali then concluded that the qualities of a leader are namely knowledge and *hikmah* (wisdom, insight), *taqwa* (piety), ‘*adl* (justice) and *rahmah* (compassion), courage and bravery; *shura* (mutual consultation), decisiveness and being resolute, eloquence, spirit of self sacrifice and *sabr* (patience).

V. CORPORATE GOVERNANCE

Corporate governance can be interpreted as the process in which the company is administered and controlled by a few parties such as board of directors, management, auditors etc. These parties have the duty to ensure that the company is heading towards the mission as well as the vision of the company. At the same time, they are also accountable to the companies' stakeholders (Abdul Rahman 1998; Shahul, 2000 u.p.). In Malaysia, the Finance Committee on Corporate Governance (1998) describes corporate governance as: *"the process and structure* *used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders".* It is basically the governing bodies which are responsible to the life of the institution as a whole. It takes into the consideration all the matters that affect feasibility, proficiency and ethical character of an enterprise.

Today's corporate boards, managers, auditors, and accounting standard setters are presumably all working together to create a financial reporting process of unparalleled integrity. However, certain aspect of the business operation raised the question of effective corporate governance. In the running of a corporation, owners and management are two separate parties. Owners cannot effectively manage a business, a task that would require significant and consensus-building whom realized the limitations of the corporate structure from its inception, form the corporate board of directors to serve on their behalf.

However, the fact that the Chief Operating Officer (CEO) influences the membership of corporate board of directors and controls the agenda of all that goes on at board meetings seems to be contrary with purpose of the board existence itself. In addition to that, most cash bonus plans as well as most stock option plans or stock award plans are based on accounting results (Bloedorn and Chingos, 1991; Ittner et al., 1997), financial statement has become the focal point of management's wealth maximization strategy.

Beginning 1970s, many corporate mergers and acquisitions took place. To keep up with the phase of business orientation, CPA firms also grow internationally in order to retain market share. As the CPA firms grew and merged, they became more strategic and more cost-conscious in their effort to obtain new clients. Firms sought to provide a full menu of consulting as well as the 'internal audit' services to clients in every industry to demonstrate their market strength and expertise. The downward pressure on auditing costs led to relative reductions in salary and quality of audit staff, less substantive test of details and more reliance on analytical review techniques, and factors that generally led to a lower quality audit. What investors and creditors do observe all too often lately are instances where it appears the auditors and/or the audit committees were not effective. These are the cases of fraud, material errors or misstatements, material omissions, restatements of multiple prior years' earnings because of accounting oversights or improprieties, or maybe just aggressive accounting called to the attention of the corporation by the SEC or shareholder advocates. Recent examples abound and include such icons as AOL Time Warner, WorldCom, Boeing, Computer Associates, Xerox, Enron, Tyco, IBM and on local front MAS and Renong are two examples.

Recommendations for Effective Corporate Governance from Western Perspective

The collapse of big and well established companies was mainly due to the ineffective and lack of keen-eyed surveillance functions of the board of directors and audit functions. American Institute of Certified Public Accountants (AICPA) (1993) in their report states that good and effective corporate governance could be nurtured via strengthening the role of the board of directors. In addition to that, President of United States of America (USA) George W. Bush also addresses comment on the grave corporate governance problem. During the recent State of the union address, he urged that the corporate must be made accountable to employees and shareholders and held to the highest standards of conduct. According to him, this could be attained through tighter standards and tougher disclosure requirement.

On the other hand, the Blue Ribbon Committee (BRC 1999) has discovered three essentials facts pertaining to the oversight responsibility of corporate governance as well as the audit committee. Firstly, in order to produce a so called quality financial reporting, a collaborative working environment, two ways communications among management, board of directors, audit committee internal auditors and external must be well developed and established. Secondly, to reduce the fraud in the financial statement, the role of the corporate governance need to be strengthened. This fact is similar with the recommendation of the AICPA report in 1993. Thirdly, to enhance the confidence in the capital market, the elements of integrity, quality and transparency need to be cultivated in the financial reports. This confidence will be diminished if fraud is found to be existed in the financial statement.

In fact, the external auditors are required by the International Standards on Auditing (ISAs) to communicate pertaining to significant matters which struck their attention during their assignation with the governance body in their client's company. Besides, the internal auditors also given the authority to discuss paramount items they found with the governance body. This is the requirement of the authoritative Practice Advisories (Pas) as issued by the Institute of Internal Auditors (IIA). As far as auditing profession is concerned, the external auditors concern with the external users of the companies whereas the internal auditors concern with the internal matters within the organization itself. The existence of both groups is ultimately to shield the interest of the shareholders as well as lead the company to the right route in the most effective and efficient manner.

According to Baker and Wallage (2000, p. 173-174) 'an effective system of corporate governance requires an effective system of financial reporting and that an effective system of financial reporting requires a well-ordered system of financial accounting'. A look at financial reports will tell us that it consist primarily of audited financial statements prepared in accordance with accepted accounting standards and must be audited by statutory auditors. Baker and Wallage (2000) argue that this model of financial reporting possess two difficulties. First, audited financial statement does not represent the economic reality and therefore gives an opportunity for directors to misrepresent or hide the true economic condition of their companies. Second, the independence of auditors is being questioned as they may be subject to the influence of the directors of the company. In resolving these issues, the authors studied recommendations made by Institute of Chartered Accountants of Scotland (ICAS) on *Auditing into the Twenty-first Century*. The summary of the recommendations are as listed in the table 2 and 3 below:

Table 2: Summary of the Recommendations to Improve Financial Report

The financial reports ought to provide assurance that:

1. The financial statements are right. 2. The company will not fail 3. There has been no fraud 4. That the company has acted within the law 5. That the company has been competently managed, 6. That the company has adopted a responsible attitude to environmental and societal matters.

Table 3: Summary of Recommendations to Improve Auditor's Work

The auditors should be:
1. Independent of the managing directors of the company being audited 2. Responsible for reporting to a third party if they suspect that the managing directors are involved in fraud or other illegal acts 3. Accountable to a wide range of stakeholders 4. Financially liable if they fail in their duties.

According to Baker and Wallage (2000) the implementation of this recommendations would gives several implication. Firstly, the internal audit function is necessary. In this way, the external auditors would cooperate with, and assess the work of the internal auditors, and they would opine independently on the managing directors' statement concerning their responsibilities as directors. Secondly, managing directors are expected to have a greater accountability to a wider stakeholders and this would change the format of current audited financial statements that is prepared to fulfill decision usefulness criterion for investors and creditors. Next, companies are expected to have a two-tier board of directors, comprising a Supervisory Board and a Managing Director.

Detomasi (2002) suggest three independent elements to achieve effective corporate governance. First, a strong public sector governance is needed detailing how financial reporting and auditing practices are to be conducted. Second, a community of well trained managers and executives that are able to formulate and execute effective corporate strategies within the boundaries set by law and securities regulation. Finally, independent auditors capable of performing neutral and objective auditing practices of corporate behaviour must complement the work of managers and legislators.

Malaysia's Move towards Effective Corporate Governance

In Malaysia laws has been reformed and amended to cater the issues in corporate governance. For example effective on September 1, 1998 new section 166A has been established. This provision has required the companies to prepare their accounts in accordance with approved accounting standards. It can be said that this provision has changed the look of the financial reporting in Malaysia. As a result, the companies would not be able to report their accounts merely based on their hidden purposes and this may enhance the quality of financial reporting which has dropped recently.

The other changes is, under the provision of the Financial Reporting Act 1997, MASB is now responsible for promulgating accounting standards. Unlike what happen previously where the standards were promulgated by the accounting bodies. The Securities Industry Act 1983 also has been amended in the effort to strengthening the role of corporate governance. For instance, section 99B has now required the chief executive officers (CEOs) as well as directors of public listed companies to disclose their interest not only in the listed companies but also interest in any associated companies as well to the Securities Commission (SC). Besides, the increase in penalties for such failures to comply with this requirement and the lowering of the threshold for substantial shareholding reporting to 2%, clearly shows the seriousness of the government in handling governance issues towards better transparency in term of ownership disclosure.

Another endeavor to promote greater disclosure and transparency is by introducing new code pertaining to take over and mergers which take effects on January 1, 1999. The major reflection of this code is for those who involve in mergers and acquisitions; they will now need to follow much higher standards with regards to disclosure and corporate behavior. Such code is belief to be significantly needed in order to create an efficient, informed as well as competitive market. Also, the High Level Finance Committee on corporate governance comprising vast experience[2[2]] representation from public and private sectors and chaired by the secretary general of treasury has been established in early 1998. Then, through the comprehensive recommendation of this committee, the government in 1999 was able to release the Financial Committee report.

One of the important elements addressed in this report was the Malaysian code of corporate governance. First and foremost, it is a set of principles and best practices recommended for good governance. This recommendation focuses on four areas like principle, best practices, near best practices and exhortation to other participants. The summary of the code is provided in the table 2 below;

Table 4: A summary of Malaysian Code of Corporate Governance

Types of Area	*Objective*
Principle	To provide flexibility and common sense in its application which is subject to the circumstances of each corporation
Best practices	A set of guidelines of practices for the company to design a code of corporate governance
Near best practices	Merely helpful tips since no disclosure are required if companies do not follow them
Exhortation to other participants	Totally voluntary for the company

All these efforts have shown to us on how concern the related parties to nurture a good corporate governance. A lot of recommendations and laws have been revised world wide to cater the malaise, yet none of them historically able to promote better governance in the company.

[2[2]] They are very seniors in their respective organizations

VI. THE ROLE OF ISLAMIC WORLDVIEW TOWARDS EFECTIVE CORPORATE GOVERNANCE

Any attempt to make corporate governance effective must incorporate Islamic concepts and values that have been discussed in the above section. Corporate activities might just be the interaction of two or more parties in business dealing using money as the medium of transaction but if it is done within Islamic Shari'ah without any intercession or association of partners to Allah and with the intention to please Him, then this will be a sign of worship to Allah (see Bilal Philips 1994).

Abdul Rahman (1998) applies the concept of tawhid, khilafah and taklif in his Islamic corporate governance framework. According to him an Islamic corporate governance framework should integrate both the regulatory aspect that is based on Shari'ah and Islamic moral precepts as its core structure. He claimed that the institution of shura, hisbah and religious audit can be used to achieve effective corporate governance.

Shura

Shura has been practiced since the time of the prophet Muhammad (pbuh) whereby he and his group of companion of highly knowledge discuss on certain issues. In the Holy Quran, there is one chapter entitled 'Shura' itself. Allah says

وَالَّذِينَ اسْتَجَابُوا لِرَبِّهِمْ وَأَقَامُوا الصَّلَاةَ وَأَمْرُهُمْ شُورَى بَيْنَهُمْ وَمِمَّا رَزَقْنَاهُمْ يُنفِقُونَ

> *Those who hearken to their Lord, and establish regular Prayer; who (conduct) their affairs by* **mutual consultation**; *who spend out of what We bestow on them for Sustenance* (42: 38)

In worldly matters, the Prophet (pbuh) used to consult others and be consulted by them, while in religious matters, he referred to the revelation which took care of all matters related to faith. In the modern Islamic organization, a group of people comprising of representatives of shareholders, employees, customer can be formed acting as shura to assist corporate directors in the running of the business activities as well as to ensure consensus in decision arrived. To the Western, inviting all these groups in the decision making process might be unreasonable because their focus is mainly aiming at maximizing wealth for the shareholders and creditors (Kam, 1990; Shahul, 2001). However, Islam has a wider spectrum of users in which the overall organization's objectives should take account off making the institution of shura applicable at this time of science and technology just as at the time of camel and desert of the prophet!

Hisbah

The Hisbah is essentially organized around safeguarding the limits of Allah from being violated, protecting the honour of the people, and ensuring public safety. It also includes monitoring the marketplace, craftsmanship, and manufacturing concerns to make sure that the laws of Islam are upheld by these entities. Allah states in the Holy Quran:

وَلْتَكُن مِّنكُمْ أُمَّةٌ يَدْعُونَ إِلَى ٱلْخَيْرِ وَيَأْمُرُونَ بِٱلْمَعْرُوفِ وَيَنْهَوْنَ عَنِ
ٱلْمُنكَرِ ۚ وَأُو۟لَـٰٓئِكَ هُمُ ٱلْمُفْلِحُونَ ﴿١٠٤﴾

> *"Let there arise from you a group calling to all that is good, enjoining what is right and forbidding what is wrong. It is these who are successful*" (3: 104)

In Islam, economic activities including business trading and its services are controlled by Shari'ah. Likewise, the system of Hisbah is an integral part of a just economy in a just society which also provides the same for non-Muslims as residents in an Islamic society. Off-hand, a Muslim should not cheat a non-Muslim in business whatsoever. Prophet Mohammad once said: "Who ever (a Muslim) causes harm to non-Muslim is also causing harm to me; and I shall be his opponent on the Day of Judgment". Hisbah institution operationalize through the function of *al-Muhtasib* whose responsibilities are almost open-ended in order to implement the foregoing principle: commanding the good and forbidding the evil of wrongdoing[3[3]]. Al-Muhtasib and/or

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[3[3]]Please refer Al-Imam Al-Ghazali's book Ihya' Ulumuddin (Vol. II) on the procedure of al-Hisbah.

his deputies as full judge must enjoy high qualifications of being wise, mature, pious, well-poised, sane, free, just, empathic, and learned scholar. He has the ability to ascertain right from wrong, and the capability to distinguish the permissible (halal) from the non-permissible (haram). The Hisbah carries out these responsibilities in conjunction with the appropriate government agencies and other relevant establishments.

Religious Audit

Islamic religious auditing provides an institution to solicit advice and also to monitor performance so that the company operates as a strictly Islamic concern. The Islamic precepts highlighted the differences between Islamic and Western business practices. For example, the Islamic Shari'ah prohibits, among other things, the payment and receipt of riba or usury (Quran 2: 275-276), gambling (Quran 5:90), hoarding (Quran 9:34) and speculation (Qureshi, 1976). Besides that, Islam also forbids any investing or dealing in alcohol, pork and other activities which are considered unlawful from an Islamic perspective. The need for religious audit stem from the requirement that organization should comply with the Shari'ah. If religious auditors find any violation of the Islamic principles in the operation of organization, then this should be reported in the organization's financial statement as in the case of external auditor reporting their opinion on the true and fair view of the organization's financial position.

AAOIFI Approach for Effective Corporate Governance

The issue of governance is also the concern of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Since the Muslim holds the concept of dual accountability, acting as the vicegerent of God, adherence to Shari'ah rules and principles are of primarily importance for an Islamic organization. As such, what is lawful should be distinct with the unlawful and must be reflected in the policies, product, activities, and transaction of the business as in accordance with the Islamic law of Shari'ah. In view of this, AAOIFI has established standards of governance known as Governance Standard for Islamic Institutions (GSIFI) to govern the manner in which Islamic Financial Institutions (IFI) are controlled and in which those responsible for the direction of the companies are accountable to the stakeholders with the principles mentioned above.

The first proposal made by AAOIFI is the establishment of Shari'ah Supervisory Board (SSB) which comprise of specialised jurist in fiqh almua'malat (Islamic commercial jurisprudence) to conduct a Shari'ah review on the activities carried out by IFI (GSIFI No. 1 and GSIFI No. 2). The membership of SSBs may also include other experts in the field of accounting, economics, lawyers and bankers. In short, the SSB will play the role as pilot towards management adherence to Shari'ah, examiner of IFI's activities and transaction, coordinator between IFI and external auditor and finally conclude all that in a report to the shareholders. Abdallah (u. p.) listed three reasons why SSB play a significant role for banks which offer Islamic financing:

1. 'The Islamic banking system is different from the usurious banking system. Areas of similarities and dissimilarities can be recognized with certainty through SSB.
2. Whereas the usurious banking system depends largely on the rate of interest in governing the bank's operations and services, the Islamic banking system prohibits a rate of interest in any banking operation.
3. The Islamic banking system is governed by the principle of ghunm bil-ghurm[4[4]] which, contrary to the usurious mode of finance, is a risk-bearing principle. This principle governs the mechanism of the Islamic modes of finance, which are different from those of the rate of interest in almost all respects.'

The function of SSB will be assisted by internal Shari'ah review (GSIFI No. 3) acting as an internal auditor assessing the Shari'ah compliance of IFI. Internal Shari'ah review is the intermediary party between SSB and the management by performing their activities based on guidelines, fatwa[5[5]] and instructions set by SSB and later prepare a report on the work done to SSB and the management. Another aspect of governance introduced by AAOIFI is an Audit and Governance Committee (AGC) as established in GSIFI No. 4. While SSB concentrates on the

[4[4]] An opportunity for profit or loss due to the risk-bearing type of financing.
[5[5]] Fatwa is a ruling on a point of Islamic law given by a recognized authority

religious aspect of the company, AGC is seen as the responsible group for monitoring the overall conduct of the business covering from the internal control aspect, compliance with Shari'ah laws and the organizations adherence towards code of ethics.

Problems with the Implementation of SSB & Internal Shari'ah Review

There is no doubt for the need of supervisory on Shari'ah matters pertaining to the operation of IFI. Ideally, SSB should be from one organizational body since Islam does not recognise any separation between business and religion. However, the present situation in Malaysia does not enable the establishment of SSB and Internal Shari'ah Review group for each IFI. The reason for this is that those who are well-versed in the Shari'ah are not necessarily knowledgeable about the present state of affairs in banking, finance or accounting. Likewise, those who are well-versed in the latter are not necessarily knowledgeable in the Shari'ah. Due to this fact SSB has been operated at the central bank level, i.e. Bank Negara Malaysia, whereby their expertise is shared by all banks that provide Islamic financing. The implementation of SSB at the national level imposes several implications.

First, in performing their duties as Shari'ah supervisors, SSB might have come out with certain fatwa with regard to some issues on the Islamic financing of one bank. Since SSB is the religious authority governing the rules and regulation of Islamic financing, the bank has to practice as has been advised by them. The conflict arise when SSB issue a different fatwa on the same matter to another bank. As a result, we would find the impact on the financial report is that different banks disclose differently on the same issues due to diverse recognition and measurement policies of the banks.

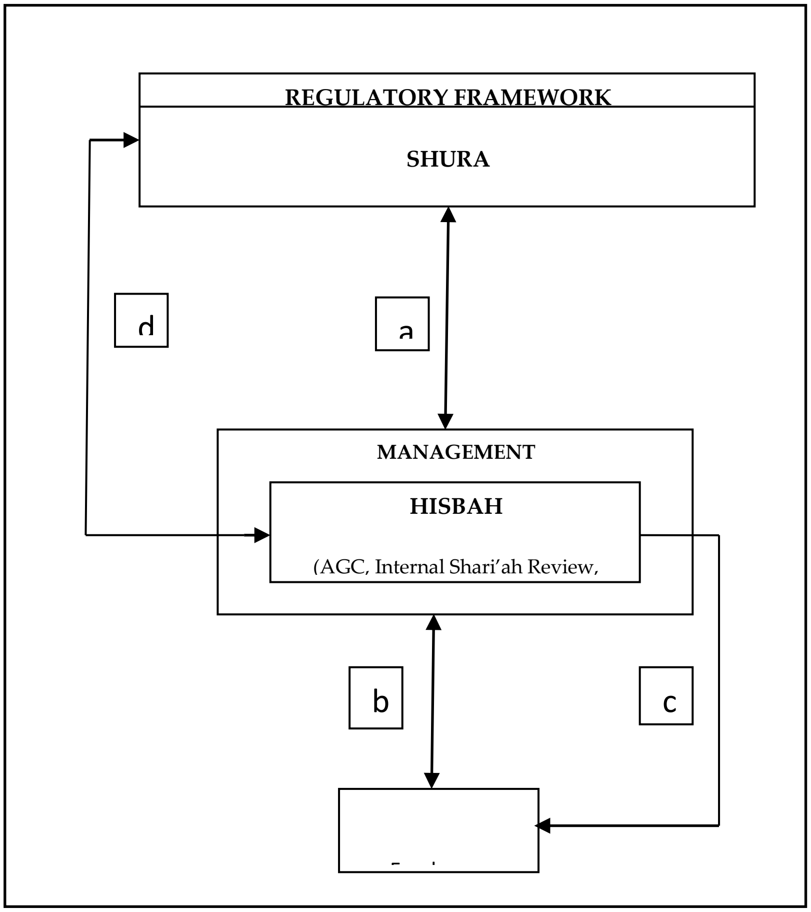
Second, as the bank operate at the international level by opening up a branch in another country, the bank is most possibly govern by the Shari'ah rules set up by SSB of the host country which is based on different Islamic school of taught whether it be Shafie, Hanafi, Hanbali or Maliki. Therefore, a single Islamic bank might have different accounting consequences on the recognition, measurement and disclosure practice for the same Islamic financing services provided. Hence, the uniformity and consequently the comparability of financial statements will be an issue of great challenge for banks offering Islamic financing.

Third, since the internal religious audit fail to come into existence as yet, the vacancy has been filled by SSB which in return raised the question of independence of SSB and hence the credibility of their report. However, since SSB are guided by their moral beliefs and obligations to religious peers and the community, they are expected to perform their duty with professional due care. Karim (u.p.) argued that SSB 'commitment to religious values and religious obligations provide members of the SSB with strong incentives to be independent'.

VII. EFFECTIVE CORPORATE GOVERNANCE FRAMEWORK: A PROPOSAL

Bowie and Duska (1990) in their analyses recommended the taking up of the stakeholder approach in undertaking business activities. They explained that the stakeholder approach as applied to the moral management of organizational stakeholders is based on the view that profit maximization must be constrained by justice, that regard for individual rights should be extended to all constitutes that have a stake in business. Applying this concept from an Islamic perspective we propose a corporate governance framework as illustrated in Figure 1 below.

Figure 1: An Effective Corporate Governance Framework



With the view that the principle of Islamic Shari'ah strike a balance between the interest of individual and society, material and spiritual gain, success in this world and the hereafter, company should be assured that its decision making, action and control system will be constructed based on the concept of tawhid or oneness of Allah. This section will discuss how planning, action and control from the Islamic perspective can enhance effective corporate governance.

The Decision Making Process

As company is responsible to a wide range of stakeholders, the decision making process of the company should take into consideration their interest. A group of Shura comprising of representative of shareholders, representative of creditors, representative of the public, BOD and SSB should be formed as the authority which is responsible for direction and setting of the corporation. As shareholders, creditors also contribute in providing capital in terms of loan for the operation of the corporation. Therefore, both parties have their rights to say in the decision making process to safeguard their interest and consequently to be included in the shura team. Public concern on corporation operation is at also high alert with cases such as misuse and unreasonable losses of public fund, fraud cases among the public officers, pollution to the environment, etc. The role of BOD and SSB has been mentioned earlier. Exercising Shura demand that decisions made should arrived through consensus by all parties involved. Since the decision made is governed by the tawhidic concept, this will emerged elements like truth, sincerity, discipline, tolerance and prevent and eliminate activities prohibited by Islam.

Authors are in the opinion that establishing shura can resolve a number of issues. First, the joint efforts of shura members will ensure checks and balances for the need to satisfy the needs of all parties. For example, BOD inclination towards profit so as to pay a return on shareholders investment without having consideration on Shari'ah principles or the environment will be counter by SSB and the representative of the public. However, this is not to say that higher monetary and materials are objectionable in Islam, provided the means employed are lawful and the gains legitimate. As all aspects are being taken care of, the maslahah of ummah or the public interest is ensured. By this way at least the essential needs of the Muslim ummah which include religion, family, property intellect and offspring as discussed by Kamali (1989) are protected and secured.

Second, some explained that corporate governance failures are contributed by single-handed control of chairman of BOD who is also the Chief Executive Officer (CEO) of the company. Conflict might arise because CEO will be able to control board meetings, the selection of agenda items, as well as the selection of board members. As a result, company's direction is very much influenced by the individualistic characteristics of the 'big boss'. The independent status of the chairman is at paramount in two respects. First and foremost, *"he should encourage a healthy debate on the issue and bring to the board a healthy level of skepticism and independence"*[6[6]]. Second, *"he should ensure that every board solution is put to a vote to ensure that it is the will of*

[6[6]] Please see Malaysian Code of Corporate Governance, para 4.21, page 31 *the majority and not that of the dominant owner that prevails"*[7[7]]. In addition, the finance committee through its report also promotes a balance in term of number for the executives and non executives directors. This recommendation is aim at ensuring that neither particular individual nor group of people can exert their power as well as their influence to control the decision making.

Third, exertion of shura will allow the development of a sense of stewardship, responsibility and accountability to shareholders, who are the legal owners of corporations. Shura are therefore subjected to higher standards which cover not only the technical efficiency of operations, but also the implementation of an efficient management system through the use of best practices developed from high ethical values as opposed to one's greediness and egoistic.

Finally, success in good planning call for benefiting from the effort of all shura members, exercised not through disoriented individual action but through concerted effort. The Prophet, advises us that "*The hand of ALLAH is with the Jama'ah . Then whoever singles himself out (from the Jama'ah) will be singled out for the hell-fire."* Convinced with this principle, the barakah or blessing of Allah the Sustainer of this world and the hereafter with the practice of shura that is in line with the Islamic values.

Executing Decision

As shura comes out with a decision and the management carries out the plan, there exist a dual relationship between management and shura and management and employees as shown by the line label a and b respectively. Management entrusted with the responsibility to carry out decision made by shura in an Islamic manner. The manager is not merely responsible to his human superiority but simultaneously to Allah. The responsibility to Allah is in fact a function of the intrinsic quality of the manager's life as an amanah from Allah. The Islamic concept of accountability to Allah is the understanding that human beings will stand before Him in the Day

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[7[7]] Please see Malaysian Code of Corporate Governance, para 4.21, page 31 of Judgment to take account for his deeds in this world. Therefore, managers should take their work as a form of ibadah (worship) and amal salih (virtues act).

On the other hand, management-employee relationship should be based on amanah (trust) and adl (justice). While employees should be amanah in performing their job, management should be just on the rights of the workers pertaining to their salaries, training, education and the religious obligation like performing prayers.

Control System

Hisbah function as a control mechanism within a corporation. This task will carried out by AGC, internal shariah review as well as external auditor. As illustrated in the diagram, hisbah authority is placed inside the management team so as to portray that they are responsible to make audit on the management work. Besides that, they also make audit on the work done by the employees of the corporation as depicted in label c. The findings of hisbah authority will be reported to the shura which serve as a source for shura to assess the overall running of the corporation and make plans on how to improve it. The relationship between hisbah authority and shura is shown in label d.

AGC plays an important role in assisting the shura by preserving the integrity of the financial reporting process, and providing additional assurance on the reliability of financial information presented to the shura members. For AGC to play an effective and independence role, the composition of its members should be from non-executive directors. A study by Haniffa and Cooke (2000, p. 4) suggest that ‘non–executive directors provide firms with links to the external environment due to their expertise, prestige and contacts’. Therefore, authors are in the opinion that ACG responsibilities include the review of internal controls, accounting practices and audit plan, accounts and financial reports, compliance with Shari’ah rules and principles and finally the use of restricted investment accounts’ funds.

As the objective of hisbah existence is to ensure compliance with rules and regulation set up by Islam and the local authority, its position is best placed by internal Shari'ah review, internal auditor and external auditor. These auditors, when performing their duties should hold to God fearing concept with full sincerity that they are responsible to a wide scale of users and ultimately to responsible to Allah. These values will ensure that they will preserve their reputation so as to maintain their independence.

As a conclusion to their task, the internal Shari'ah review and internal auditor should produce a report to the management, shura as well as stakeholders together with the report of external auditor's annual report. The internal Shari'ah report should ensure readers that the financial statements of the company were in accordance with the Islamic Shari'ah and that they have access to all the documents and records deemed necessary in carrying their duties. Any deficiencies or breach in the conduct of management will be informed to shura so that corrective action can be taken.

The above suggestions would be an ideal framework considering those parties involve in the operation of an organization. With the current lack of Islamic scholars in fiqh almua'malat, it is deem necessary to have such experts to be placed in the team of shura and hisbah within an organization. This implies a serious need for the education authorities to come out with a drastic plan to prepare professionals who is well verse in both accounting and fiqh al-mua'malat.

VIII. CONCLUSION

Worldviews play a paramount role in the human being life. Its affect every single action of a man. Different worldviews will certainly shape different qualities of man kind which will eventually lead them to different end means of life as well. Western worldview and Christian worldview concern on secularism and religious respectively while Islamic worldview has dual worldviews which are in this world and in the hereafter. These remarkable and peculiar worldviews as compared to others have cultivated Islamic concepts, values and norms to the Muslims (assuming all Muslims adopt Islamic worldviews) at large.

The implications of these worldviews have nurtured positive contribution to the effectiveness of corporate governance. Although the Western have come out with a variety of connotations and recommendations pertaining to the effective corporate governance, the future of corporate governance globally still equivocal since none of them seems to be effective. Historically, such endeavors have shown failures. Hence, an important note to ponder is that the codes of upholding trust, maintaining integrity, exercising transparency and accountability, prudent management of resources, maximizing returns, caring and concern of the environment would remain as mere noble codes if the issues of man, his values, ethics and moral conduct are not tackled in the first instance. Corporate governance is basically the moral and ethical dimensions of managing a company's business. For the Muslims, the ethical codes of conduct based on the tawhidic worldview and Quranic values are considered more elevating than those, which are detached from religious moorings

As far as Islam is concerned, the Western solutions will resume to face failures as long as they are not able to cultivate a so called 'true accountability' (Islamic accountability) in their practitioners (i.e. accountants, auditors, board of directors, managers etc.). Islam believes that the dual accountability namely accountability to man to man as well as accountability to Allah are the best solution to attain good corporate governance.

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