TOWARDS ISLAMIC WORLDVIEW BASED CORPORATE GOVERNANCE FRAMEWORK

Sheila Nu Nu Htay

Abstract

Codes on corporate governance (CG) mainly derive recommendations from the concept of agency theory. The said theory and one of the earliest reports on CG, i.e. Cadbury Report (1992) in UK focused specifically on shareholder oriented nature of governance. Later on, the accountability of directors has been extended to other stakeholders. Therefore, if the trend of the evolution of the corporate governance is observed, shareholder-centred role of the directors has been integrated with responsibilities towards the stakeholders. It can be summarized that the current CG guidelines are a combination of the concepts of stakeholder theory and agency theory. Hence, overall progress of the development of the conventional CG codes has been done with a problem solving approach by tackling emerging problems. However, even with the existence of the guidelines, CG failures still exist. Thus, the effectiveness of the existing codes are questionable since they are not concrete solutions. It might be for the reason that they are man-made guidelines and based on the human reasoning after examining past events and predicting possible future problems. Therefore, it should be concluded that only Islamic worldview based corporate governance framework (IWBCGF) will guide the directors to perpetual solutions of the current and future CG problems.

1. INTRODUCTION

The importance of CG emerged together with the birth of corporations. Most of the codes on CG and corporate governance literature derive recommendations from the concept of agency theory which focuses on the agency relationship between the shareholders (owners) and directors (agents). However, nowadays, the accountability of directors has been broadening since they are responsible not only to the owners but also the stakeholders such as suppliers, customers and employees. Therefore, if the trend of the evolution of the corporate governance is observed, shareholder-centred role of the directors has been integrated with responsibilities towards the stakeholders. It can be assumed that the current CG guidelines are a combination of the concepts of stakeholder theory and agency theory. Hence, overall progress of the development of the conventional CG codes has been done with a problem solving approach by tackling emerging problems.

Moreover, even with the existence of the guidelines, CG failures still exist, for instance, Enron, Worldcom, Healthsouth, Pamalat, Jinro Ltd, and Tyco international companies. Hence, the effectiveness of the existing codes is questionable since they are not concrete solutions. In the researcher's opinion, it might be for the reason that they are man-made guidelines and based on the human reasoning after examining past events and predicting possible future problems. Furthermore man has limited knowledge given by God and only God is all knowing. Therefore, the objective of this paper is to propose Islamic worldview based corporate governance framework (IWBCGF) which is founded on the divine teachings with the expectation that if directors follow the code of conduct of IWBCGF, it will guide the directors to perpetual solutions of the current and future CG problems.

The paper is presented in 4 sections. The second section explains two main competing CG theories, i.e. agency theory and stakeholder theory. The third section highlights why Muslims need to follow Islamic teachings not only in the religious matters but also business activities and why Islamic teachings should be a base for the development of corporate governance framework. Since CG from an Islamic point of view is examined, Islamic accountability and its implication on corporate governance, Islamic literature and the standards issued by the AAOIFI are discussed. The last section concludes.

1.1 Competing CG Theories and Discussions on CG Guidelines

Theoretical framework of corporate governance that is mainly used by the prior researchers is agency theory and later on it is followed by stakeholder theory nowadays. These two theories have been polarized between a shareholder perceptive and a stakeholder perceptive (Ayuso, Rodriguez, Garcia & Arino 2007). Thus, this section explains these two theories.

2.1 Agency Theory and Corporate Governance

Agency relationship is defined as a contract under which one party (the principal) engages another party (the agent) to perform some services on the principal's behalf. According to the agency theory relationship, directors (as agents), are delegated the authority by the shareholders (as principals) to monitor the management of the company (Jensen & Meckling 1976), the. However, due to the separation of ownership and control, agency problems, (i.e. moral hazard (hidden action) and adverse selection (hidden information)) could occur and directors might maximize their own interests at the expense of the shareholders (Millson & Ward 2005). Thus, the main issue from the agency theory is the existence of agency cost, i.e. the difference in value of the firms between hundred percent owner managed and not hundred percent owner managed firms (Mueller 2006; Williams et al., 2006). There should be some mechanisms that align the interests of principals and agents (Judge et al. 2003). The suggested mechanism is good corporate governance by which this conflict of interest can be resolved to a certain extent (Gursoy & Aydogan 2002). Cheung and Chan (2004) also describe that the ultimate goal of corporate governance is to monitor the management decision making in order to ensure that it is in line with shareholders' interests, and to motivate managerial behaviour towards enhancing the firms' wealth.

It can be summed that agency theory focuses mainly on the relationship between the shareholders and the management, and aligning their interests to maximize the firm value. However, most of the findings of empirical studies are not in line with what has been recommended by the agency theory. Some of the recommendations are to have a separate board leadership structure and higher proportion of independent directors on the board. For instance the results of (Shamsul Nahar 2004; Hock 2007) show that board leadership structure does not show any relation with firm performance. In some cases, the findings are contrary to the theoretical expectation. The findings that are contradictory to the theoretical expectation are the studies by Bozec and Dia (2005), and Leng and Shazaili (2005), since they find that combined leadership structure has significantly higher performance. Regarding board composition, the findings of Evans, Evans and Loh (2002), Judge et al. (2003), and Peng, Buck and Filatotchev (2003) are not in line with theoretical expectation. This means that their results do not support that firms with higher proportion of independent non-executive directors have better performance.

Since empirical studies do not support the agency theory, testing hypothesized on agency theory seems to be not suitable, in certain situations. In 1984, Freeman comes out with a stakeholder theory which highlights the importance of stakeholders and his theory seems to be a contrary to the concept of the agency theory proposed in 1976. Therefore, the next section will explain the stakeholder theory.

2.2 Stakeholder Theory and Corporate Governance

Stakeholders can be defined as "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman 1984). The majority of stakeholders are employees, creditors, suppliers, customers and the local community (Ayuso et al. 2007). Thus, it extends the responsibility of the directors towards the corporate social responsibility, which is defined as "an organization's commitment to operate in an economically and environmentally sustainable manner while recognizing the interests of its stakeholders" (Amaeshi 2010). Therefore, it seems that stakeholder theory seems to give attention on business morality in addition to the maximization of the profit.

Stakeholder theory is not free from criticizing, especially from the supporters of agency theory. Stakeholder theory suggests considering all the interest of stakeholders and their goals, priorities and demands are different and often contradictory. Blair (2005) argued that there are too many parties to take care and the theory does not able to provide the guideline on how to balance the competing interests of different stakeholders. Jensen (2001) states that it is impossible for the firms to make purposeful decision since stakeholder theory cannot provide the concept how to make the necessary tradeoffs among all types of stakeholders. In addition, Key (1999) states in his article that "Freeman's theory has been criticized due to (a) inadequate explanation of process, (b) incomplete map that shows linkage of internal and external variables, (c) insufficient attention to the system within which business operates and the levels of analysis within the system, where by more detail analysis of stakeholders should be done, such as individual stakeholders, organizational stakeholders and institutional stakeholders, and (d) inadequate environmental assessment (Although it is argued that business and social responsibility should not be separated from business strategy and policy, Freeman's model does not provide an understanding of the operation of the overall system that includes the firm's environment)".

Based on the above discussion regarding agency theory and stakeholder theory, both theories have loop holes since these theories have been imagined by the human being based on their reasoning. In addition to the above two dominant corporate governance theories, how corporate governance codes gradually give attention to the stakeholders apart from the shareholders is explained in the next sub section.

2.3 Review of Corporate Governance Guidelines: Shareholder vs Stakeholder Aspects

If the historical background of the development of corporate governance is examined, the responsibilities of the boards of directors have been gradually extended from shareholder centred to stakeholders. In this paper, only the codes from UK, US and OECD are reviewed since these countries and organization are the leading guides of corporate governance.

The first corporate governance code is Cadbury Report (1992) from UK and it purely focuses on the shareholders and none of the contents from the report relates to stakeholders. Corporate governance is defined as "The system by which companies are directed and controlled. The responsibilities include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship...." in Cadbury Report. Hence, by examining the definition of the corporate governance, in the early days, it seems that the responsibility of the directors is only towards the shareholders. Similarly, the Greenbury Report (1995**)** from UK also just focuses on the shareholder aspect only. Started from Hampel Report (1998), the responsibility of the directors has been extended to the stakeholders.

In US, “The Report of the National Association of Corporate Directors (NACD)” was published in 1996. It focuses on the shareholders since this report mentions that (page 1), “The objective of the corporation (and therefore of its management and board of directors) is to conduct its business activities so as to enhance corporate profit and shareholder gain and on Page 21 of that report, the board should clearly define its role, considering both its legal responsibilities to shareholders and the needs of other constituencies, provided that shareholders are not disadvantaged. Furthermore, The Business Roundtable (BRT) released a revised “Statement on Corporate Governance” in September 1997 and the important relationship with stakeholders are highlighted since it states that in (page 29) “Corporations are often said to have obligations to stockholders and to other constituencies, including employees, the communities in which they do business, and government, but these obligations are best viewed as part of the paramount duty to optimize long-term stockholder value.” Hence, in the early reports from US, it has emphasized on the stakeholder aspect in order to make shareholders’ value maximize in long run by gaining the supports from the rest of stakeholders.

In the case of OECD Principles of Corporate Governance (1999), the importance of stakeholder is given attention in addition to the shareholders. In page 7, it states that “The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
A. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.
B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.
C. The corporate governance framework should permit performance-enhancing mechanisms for stakeholder participation.
D. Where stakeholders participate in the corporate governance process, they should have access to relevant information.”

In sum, it could be concluded that the codes give attention to the important role of stakeholders however the motivating factor or the reason behind taking care of other stakeholder is to maximize the firm wealth in long run.

2.4 Researchers’ View on CG Theories and Codes

After critically reviewing the two dominant CG theories, it is observed that the concepts of both theories have important implications on the governance since each theory has its own justification although they have the loopholes. In the researcher’s opinion, these theories and current codes cannot be permanent and eternal reference in order to solve all aspects of current corporate governance issues. The main problems are as follows:

(a) One theory or code provides a solution only from one aspect only.

(b) CG theories and codes are manmade opinions which are totally based on human reasoning only.
(c) Human being has the limited knowledge given by God and they are not able to see beyond this world.
(d) Their opinion is based on the purpose of gaining the benefits in this world and their main motivation factor is to take care of other stakeholders in addition to shareholders, which is a profit motive.

Boards of directors cannot ignore the interests of other stakeholders such as employees, customers and government since the businesses need the support of other stakeholders for long term survival. Furthermore, current CG codes focus on physical aspect of corporate governance (i.e. the leadership structure and composition of the board) in order to achieve an effective corporate governance system and majority of suggested good practices are consistent with agency theory, the domain approach underlying the shareholder perspective (Ayuso et al. 2007). They do not emphasize much on spiritual aspect that might have a substantial influence on the effectiveness of corporate governance. Hence, the next section will propose Islamic worldview based CG framework, which has different motive, i.e. achieving *falah* in the Hereafter, to take care of the other stakeholders apart from the shareholders.

3.0 ISLAMIC WORLDVIEW BASED CORPORATE GOVERNANCE FRAMEWORK

This section discusses the Islamic worldview, which starts with its underlying assumptions. This is followed by a presentation of the links among the Islamic worldview, the *Shari'ah* and Islamic ethics. In addition, how the *Shari'ah* and Islamic ethics can be applied in human conduct. Since CG from an Islamic point of view is examined, Islamic accountability and its implication on corporate governance, Islamic literature and the standards issued by the AAOIFI are discussed. Overall discussion can be referred to Diagram 1.

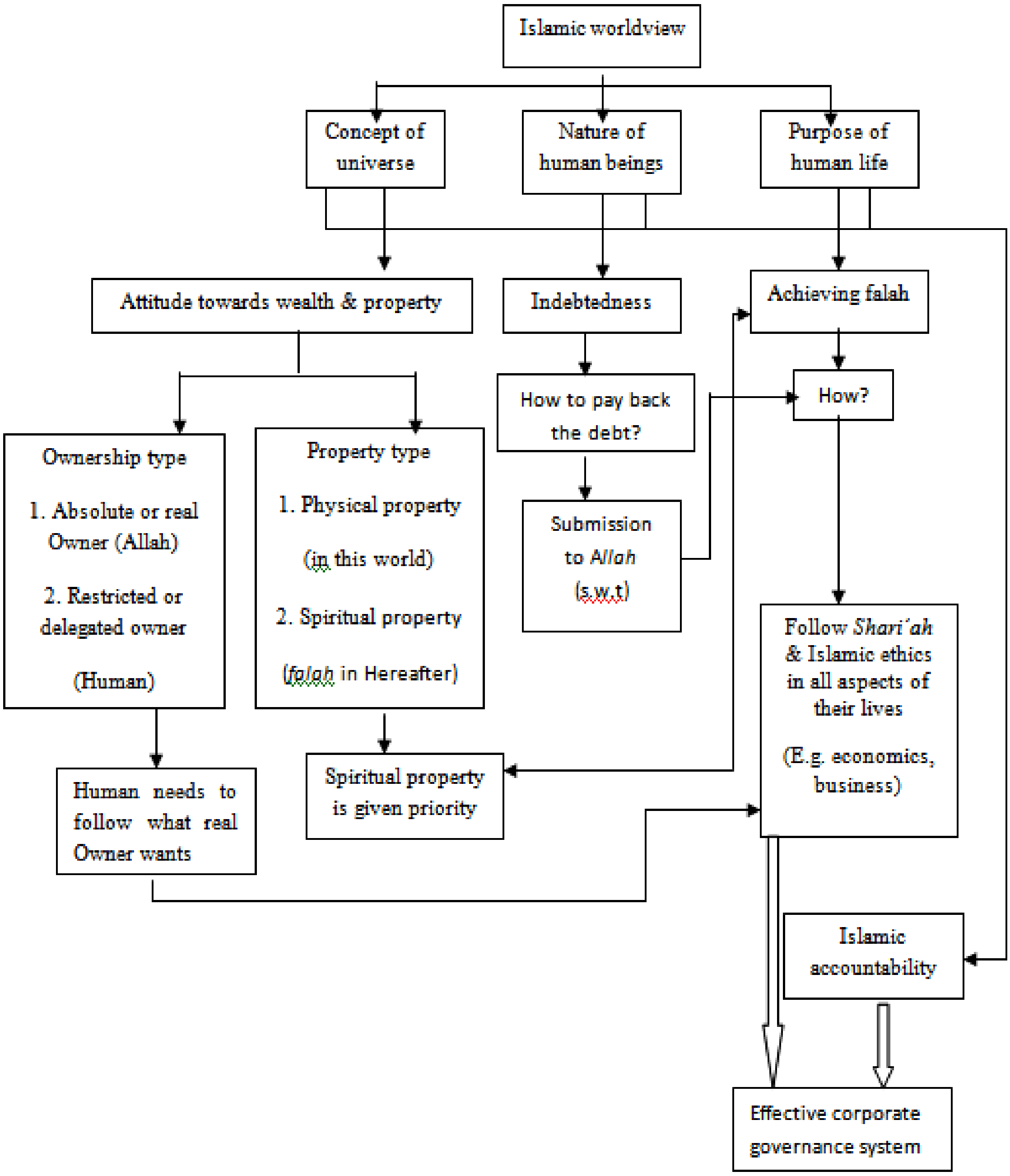

Diagram 1: Islamic worldview as a foundation of a good corporate governance system

3.1 Islamic Worldview or *Tawhidic* Worldview

The purpose of this section is to show, in theory, how the Muslim directors' attitudes, economic and business performance are influenced by the Islamic worldview and to point out *falah* as a spiritual motivator for the directors in discharging their responsibilities as the trustees of *Allah* (s.w.t) as well as shareholders and other stakeholders.

3.1.1 Underlying Assumptions of the Islamic Worldview

Worldview is defined as "a set of implicit and explicit assumptions about the origin of the universe as well as the nature and purpose of human life" (Chapra, 1992). In Islam, the worldview is based on the concept of *tawhid* which is the conviction and witnessing that "there is no god but Allah (s.w.t)". *Tawhid* is actually the general view of reality, of truth, of the world, of space and time, of human history and destiny (Al Faruqi, 1992). Islam believes that the universe is the creation of *Allah* (s.w.t). The nature of human beings is being indebted and submissive to *Allah's* (s.w.t) Will by following His commands and *Sunnah* in all aspects of human life, including business activities. The purpose of human life is to achieve *falah* or eternal happiness in the Hereafter. Moreover, it is believed that this world is a journey to reach the destination, i.e. the Hereafter. Hence, it could be said that the Islamic worldview (i.e. the *Quranic* worldview) can be described as a dual worldview; comprising both this world and the Hereafter (refer to Diagram 2). In the diagram, (a) the *Quran* refers to the Islamic Holy Book of *Allah* (s.w.t), (b) *Sunnah* refers to the way of the Prophet (s.a.w.), (c) *Qiyas* refers to legal reasoning which uses an analogical method and so in this way, decisions made in the past in other cases can be brought to bear on current circumstances, (d) *Ijma* refers to the consensus of the *ummah* and (e) *Ijtihad* refers to the process of making a legal decision by independent interpretation of the sources of laws, i.e.*Quran* and *Sunna*.

Diagram 2 starts with *Alam al-Rooh* (Pre-existent stage) and ends with *Alam al-Akhirah* (Hereafter). *Alam al- Rooh* is the starting point of man's indebted nature because *Allah* (s.w.t) creates human beings. Therefore, human beings have a covenant with *Allah* (s.w.t) (7:172). *Alam al- Rooh* is followed by *Alam al-Rahim* (mother's womb) and *Alam al-Dunya* (world). The last two are *Alam al-Barzakh* (life in the grave) and *Alam al-Akhirah* which is the last destination. By looking at this diagram, it could be said that the journey of human beings starts from *Alam al-Rul* and will end in the Hereafter. However, whether the ending will be good or bad will depend on their performance in this world.

Therefore, in the researcher's opinion, the economic and business conduct of Muslim directors would be moulded by Islamic teachings (i.e. *Shari'ah* principles and Islamic ethics) in order for them to achieve *falah* in the Hereafter.

Alam al-Rooh

Al-Mithaq (The primodial covenant)

Man is indebted to the Creator

Settle his debt by submitting his will/ desires/ wants to the Will / Law of the Creator in *Alam al-Dunya*

(Surah al-A'raf: 172)

When thy Lord drew forth from the children of Adam and make them testify concerning themselves, saying, "Am I not your Lord? They said, "Yea! We do testify! (This), lest ye should say on the Day of Judgment: Of this we were never mindful"

Alam al-RAHIM

Alam al-Dunya

Quran, *Sunnah*, *Qiyas*, *Ijma*, *Ijtihad*

(*SharÊ'ah* principles)

Man-made laws

(E.g. Company laws, corporate governance codes)

Business ethics & good corporate governance

Alam al- BARZAKH

Alam al- AKHIRAH

Day of Judgment

Good deeds

Sin

Falah (Reward)

Punishment

Diagram 2: Islamic Worldview

3.1.2 Islamic worldview, *Shari'ah* and Islamic ethics

The Islamic worldview basically highlights three main things. They are: *Allah* (s.w.t) is the Creator of everything, the indebted nature of human beings towards *Allah* (s.w.t) and the ultimate purpose of human life is to achieve *falah* in the Hereafter (Al Faruqi 1992). These assumptions are the most fundamental Islamic belief which influences Muslims to follow the *SharÊ'ah* and ethical principles in their conducts.

From the first assumption of the Islamic worldview (i.e. *Allah* (s.w.t) as a Creator of the universe), two issues related to wealth and property can be derived. These two issues are types of wealth and property and types of ownership (Ahmad 1995). Types of wealth and property can be further divided into two, namely, physical wealth and property, and spiritual wealth. Physical wealth and property can be defined as the right of property over a thing that is delegated to human beings by *Allah* (s.w.t). Spiritual wealth is achieving *falah* in the Hereafter. According to Al Faruqi (1992), there is no limit in Islam to people's right to use nature to accumulate wealth and use it fully as long as no harm comes to others. It could be said that if business dealings are practised according to the *Shari'ah*, no harm will come to the others, and at the same time, it will bring benefits to the parties involved in terms of both physical and spiritual wealth.

Regarding the type of ownership, there are two types of ownership, which are: the absolute or real ownership which belongs to *Allah* (s.w.t) and the delegated or restricted ownership which belongs to human beings (Ahmad, 1995). Human beings are just the trustees, not the real owners. Hence, they need to comply with what the true Owner wants in acquiring and disposing of wealth and property. Compliance can be achieved by following His commands (i.e. the *Shari'ah*).

From the second assumption of the Islamic worldview (i.e. indebted nature of human beings), it is obligatory for them to pay back their debt. The only way to pay back the debt is to give themselves up in service. This can be done by fulfilling His Commands and abstaining from prohibitions and living out the dictates of His Laws (Al-Attas 1993). Moreover, Muslims need to observe Islamic ethical principles since the covenant is the very foundation of Islamic ethics which is an integral part of the *Shari'ah* (The AAOIFI 1999).

From the third assumption of the Islamic worldview (i.e. achieving *falah* is the purpose of human existence in this world and the Hereafter), it can be inferred that Muslims need to follow Islamic teachings in order to achieve their purpose of existence. Islamic teaching refers to the *Shari''ah* which covers all aspects of human life, including religious affairs as well as daily activities. The following section further discusses how these Islamic teachings can be complied within the conduct of Muslims.

3.1.3 Implication of *Shari'ah* and Islamic ethics on human conduct

Islam does not allow any separation between religious and non-religious activities and so Muslims need to comply with the Islamic teachings in all aspects of their lives (Al-Attas 1993). Thus, the purposes of this section are (a) to highlight how Muslim directors should conduct their economic and business activities in order to make sure that their conduct is in line with Islamic teachings, i.e. *Shari'ah* and Islamic ethics, (b) to understand the Islamic teachings which would motivate Muslim directors to put them into practice in their conduct in order to achieve *falah*, and (c) to show the potential difference between the conduct of Muslim and non-Muslim directors.

3.1.3.1 Implication of the *Shari'ah* and Islamic ethics on economic activities

The discussion of how Islamic teachings could be practised by Muslim directors in economic activities, namely, the production, consumption and distribution of physical wealth and property is elaborated below to show how Islamic belief may influence the actions or motives of Muslim directors.

(a) Production

In Islam, the primary objective of any produce should be the provision of goods and services that are aimed at protecting life. Attainment of a reasonable profit is only the secondary objective. Even then, the ways of attaining profit are limited by the *Shari'ah* by such considerations as legality (i.e. *halal* and *haram*), ethicality (i.e. honesty, payment of wages on time), obtaining finance free from *riba* (interest), and the absence of *Gharar* (uncertainty) (Al Faruqi, 1992 & Ahamd 1995). Hence, the production of necessity goods is important to attain *Allah's* (s.w.t) pleasure.

(b) Consumption

From the Islamic perspective, consumption should be moderate rather than extravagant and selfish. The main objective of consumption for Muslims is to fulfil the obligation of *Nafaqah* (to spend on oneself and one's family as well as to protect one's life). In addition, priority of consumption must be given to necessity goods and services rather than overspending on luxury goods and services. Islam also prohibits conspicuous consumption, unlawful spending, extravagance and waste (Al Faruqi 1992). Since Islam does not allow overuse or extravagant consumption of goods and services, Muslims should reduce luxury consumption and allocate more to investment, charity and donations. Increase in spending for charity and donation will also increase spiritual wealth in the Hereafter, if the sole intention is to please *Allah* (s.w.t) (Kahf 1980). According to Shahul Hameed (2001), this type of consumption is named moral filtered consumption since it considers the need of others while one consumes for oneself. Therefore, the researcher opines that Muslim directors might give priority to allocate some funds for charity purposes rather than spending on luxury activities.

(c) Distribution of wealth and property

In Islam, wealth and property should be equitably distributed with the aim of pleasing *Allah* (s.w.t) (Al Faruqi 1992). Wealth should be distributed only to those who have taken part and contributed in the production process. The factors of production, which are capital, labor, land and the entrepreneur, should receive the return they deserve (Al Faruqi 1992). The returns can be in terms of wages, rent or revenue and profit, not in terms of interest. *Allah* (s.w.t) has prohibited interest (usury) due to its unjust nature to the borrower. Therefore, instead of rewarding capital providers with interest, Islam encourages the sharing of profits and losses among the partners through forming *Mudharabah* and *Musyarakah* (a form of partnership or joint venture) alliances. Therefore, the researcher expects that Muslim directors are aware of the prohibitions under Islam and they might avoid being involved in *haram* activities like receiving and giving interest.

3.1.3.2 Implication of Islamic principles on business activities

The separation of business from ethics has no place in an Islamic system (Alam 1998). Ethics sets the tone for businesses, where rules of business behaviour are derived from the ethical norms of Islam, which are based on the *Shari'ah*. Maududi (1986) asserts that since the *Shari'ah* is based on the *Qura'n* and *Sunnah*, this source prescribes a stand of moral conduct that is permanent and universal and is relevant for all times and under all circumstances. The *Shari'ah* outlines various guidelines on the ways that Muslim businessmen should conduct their business activities. Therefore, in the researcher's opinion, there is no exception for Muslim directors not to follow Islamic ethical principles in their business dealings.

Islam encourages conducting legitimate business or trade and it will become part of our daily lives as a *Khalifah* if we observe the *Shari'ah* and ethical rulings during our dealings. This can be seen in the following authorities. They are:

"It is no crime in you if ye seek of the bounty of your Lord (during pilgrimage)…" (*Qur'an*, 2:198)

Hadith:"…The greatest portion of God's bounty (rizq) lies in business." (Abd al-Hadi 1976, p.155-1556)

Furthermore, Islam, as a comprehensive religion, lays down rules and regulations that businessmen need to follow. In order the business activities to be ethical, the activities should be based on justice, leniency and legitimate and permissible profit oriented motive and mutual consent, no coercion, no fraud, and no falsehood (Ahmad 1995).

3.2 Corporate governance: The Islamic perspective

In Islam, everybody should struggle to achieve *falah* in the Hereafter and so there is no exception for Muslim directors. Muslim directors are deemed to be spiritually motivated by *falah* to comply with *Shari'ah* rules and regulations in their daily lives, such as while they are making economic decisions, in business dealings as well as managing the company's affairs. Since *falah* can influence the mind and attitude of directors, the researcher expects that *falah* can be an effective factor which can contribute towards good corporate governance. Therefore, the researcher believes that in order to have a good corporate governance system, two factors are necessary. They are *falah* as a spiritual motivating factor and awareness of accountability in the Hereafter.

3.2.1 Islamic accountability and *Shari'ah* based corporate governance

Shahul Hameed (2000) defines Islamic accountability as a dual accountability. The first or prime accountability arises through the concept of *Khilifa* whereby a man is a trustee of *Allah's* (s.w.t) resources. The secondary accountability is established by a contractual relationship, such as between an owner or an investor and a manager, between employees and management and local community including environment. Primary accountability is an additional accountability that Muslim directors are answerable for, compared to non-Muslim directors because non-Muslim directors believe in the secular worldview which separates religious activities and daily activities. When the corporate governance system is looked at from an Islamic perspective, it should incorporate Islamic teachings. According to Abdul Rahim (1998), the Islamic corporate governance system should be based on the concept of *Shuratic* decision making, *Hisbah* and *Shari'ah* auditing.

Apart from the previous researcher's suggestions on the concepts that should be integrated in Islamic corporate governance, the AAOIFI has produced governance standards for Islamic financial institutions. The purpose of these standards is to guide financial institutions in having an Islamic corporate governance system which conforms to the *Shari'ah* and the recommendations from these standards mainly focus on the roles and functions of the *Shari'ah* supervisory board (SSB) and *Shari'ah* audit.

4. CONCLUSION

This paper basically discusses two main dominant corporate governance theories, i.e. agency theory and stakeholder theory and their loop holes. In addition, the development of corporate governance codes related to the issues of shareholders and stakeholders are examined to find out how these codes gradually give attention towards the interest of the stakeholders. It is observed that in the governance literature as well as codes gradually extend the responsibility of directors from shareholders to the stakeholders and the main motive factor is to maximize the shareholders' wealth in long-term. On the contrary, in Islam, the motivation factor to take care of the stakeholders in addition to shareholders is to achieve *falah* in the Hereafter. Thus, this paper would like to highlight that the importance of stakeholders is given attention in conventional as well as in Islam however the motivating factor behind is different. Conventional opinion to take of stakeholders is gradually developed based on the current social and environmental problems and thus, their approach is based on the problem solving approach and there might be new theories might be coming out if they find out new problems which do not cover under the current codes and theories. In addition, existing current theories are subject to criticize by the researchers since they cannot provide the absolute reference for all aspects of corporate governance.

Therefore, this paper proposes "Islamic worldview based corporate governance framework" based on Islamic teachings which is permanent reference for all aspects of life, including business activities. Moreover, it is believed that this framework can be referred as an eternal guidance to solve current and potential future corporate governance issues. Finally, the researcher would like to suggest that God should be one of the important stakeholder and this idea is supported by Key (1999). According to him, “God is one of the stakeholder and thus some portion of corporate profit should be distributed to the poor at the end of each year”.

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