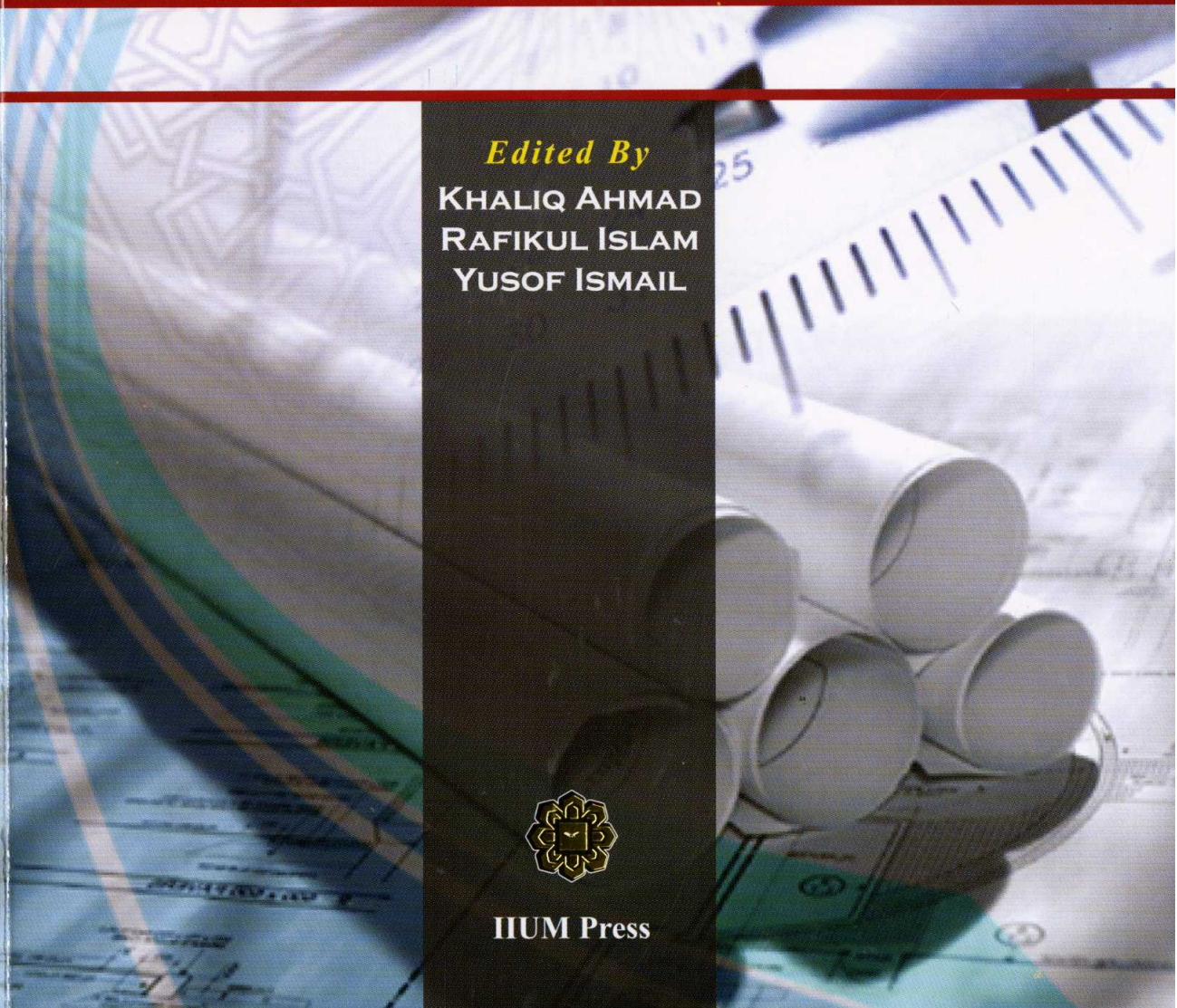




ISSUES IN ISLAMIC MANAGEMENT

Theories and Practices



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CHAPTER 5

THE APPLICATION OF SHARI'AH FRAMEWORK TO STAKEHOLDER MANAGEMENT

Asyraf Wajdi Dusuki

1. Introduction

Islam as a way of life has always promoted good ethics, strong morals, unshakeable integrity and honesty of the highest order. These positive values and high ethical conduct have firmly inbuilt and inherent in the Muslim community. Therefore the issue of Corporate Governance (here after as CG) as widely discussed in the West today is not foreign to Islamic financial institutions. As organizations governed by the principles laid out in Islam, Islamic financial institutions must strictly observe and fulfill their obligations as prescribed by the Islamic Law of *Sharī'ah*.

Apparently the issue of CG has started to figure prominently in public domain in the wake of increasing notorious mismanagement scandals involving different types of corporations including financial institutions like Barings and Bank of Credit and Commerce International (BCCI). Even for institution that proclaims itself as '*Sharī'ah*-compliance' is not immune from this mishap. The collapse of Ihlis Finance House (IFH) of Turkey in 2001 provides an example how weakness in CG practice entails negative repercussion for soundness and sustainability of an Islamic financial institution (Jang 2003).

It is now commonly acknowledged that consequences of weak CG are not only financial, but also social, environmental and essentially human damages. Accordingly, there is a shift from the traditional shareholder value centered view of CG in favor of a CG structure that looks after the interest of a wider circle of stakeholder. Extant literature suggests that a good CG practices depends on how well companies manage the diverse expectations and interests of various stakeholder groups. Nevertheless Western scholars have noted that constructing a model to devise a principle for making trade-offs among diverse stakeholders is the toughest problem of ethics that usually emerged (Boatright, 1993; Donaldson, 1999; Donaldson & Preston, 1995).

This paper, therefore attempts to address this issue by providing *Sharī'ah* prescription that provides a framework for managers to resolve problems arises from potential conflicting responsibilities towards various stakeholders. In particular, the pyramid of *maṣlahah* may