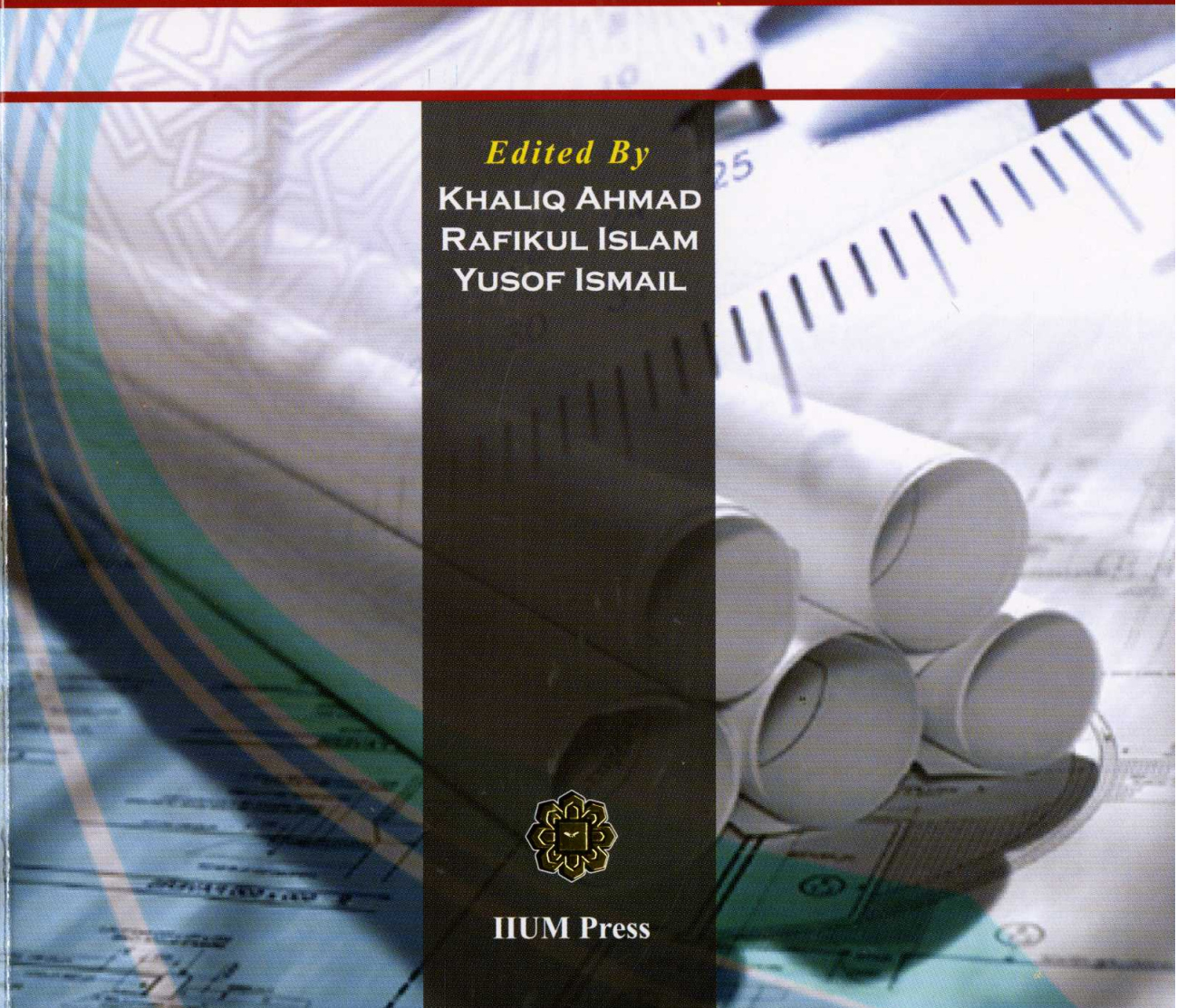




ISSUES IN ISLAMIC MANAGEMENT

Theories and Practices



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CHAPTER 9

CORPORATE GOVERNANCE: A THEORETICAL ANALYSIS OF TRIANGULAR RELATIONSHIPS BETWEEN THE SHAREHOLDERS, THE BOARD, AND CHIEF EXECUTIVE

Ismail Mat
Yusof Ismail

1. Introduction

Effective corporate governance requires that everyone involved in governing an organization, e.g. a company, is obligated to fulfill three roles: responsibility, authority, and accountability. Much of the recent talk about improving corporate governance has centered on the need for establishing proper controls and ensuring separation of duties, whereas the issue of relationship between three key internal stakeholders, namely the board of directors, the chief executive, and the shareholders is also important. Having a clear perspective on the relationship between these three stakeholders in any corporate governance, structure is therefore of great significance. At the outset, the paper highlights the forms of relationship between these three key players from conventional practice to uncover some of their role in corporate governance. Before discussing some guidelines on specific principles with regards to the relationship based on the principles of agency (*wakālah*) in *Fiqh Mu'āmalah*, the paper also touches some general guidelines on the nature of relationship between the stakeholders from Islamic perspective.

2. Shareholders

Shareholders are owners of the corporation. They own the corporation by virtue of their shareholdings. Due to the practice and convenience of separation between owners and management of a corporation, shareholders elect their representatives to oversee the management of the corporation on their behalf. Their representatives sit on the board of directors, and supervise and monitor the management of the corporation, which is led by the chief executive.

3. Role of the Board of Directors

The board of directors which is elected or appointed by the shareholders is the ultimate decision-making body of the corporation. The board formulates policies to be implemented