

CORPORATE GOVERNANCE IN ISLAMIC PERSPECTIVES

**5th INTERNATIONAL ISLAMIC FINANCE CONFERENCE:
“THIRTY FIVE YEARS ON – THE FUTURE OF ISLAMIC FINANCE”**

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**THE RITZ CARLTON, KUALA LUMPUR
ORGANIZED BY ;**

MONASH UNIVERSITY MALAYSIA & INSTITUTE of BANKERS MALAYSIA

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WHY GOD CREATES HUMAN BEING?

- ✓ **Why has He created us and sent us to this world?**

God knows how we act and live in this world. He sends us to be tested by Him, so that we can improve our abilities and skills through the responsibilities

وَمَا خَلَقْتُ الْجِنَّ وَالْإِنْسَ إِلَّا لِيَعْبُدُونِ

*“I have only created Jinns and men, that they may **serve Me**”
(Az-Zariyat :56)*

- ✓ **We Muslims believe that all our suffering, failures and adversities are nothing but a test from God, who has said that**

“Allah will throw back their mockery on them, and give them rope in their trespasses; so they will wander like blind ones “

(Al-Baqarah:15)



WHAT ARE THE ROLES OF HUMAN BEING?

Allah has given us many things. His blessings are countless. We should be thankful to Him all the time. We should also show our gratitude by doing good to others, by helping the poor and by spending in His cause.

PURPOSES OF KHALIFAH

KHALIFAH

- ✓ It is the status of man kind's responsibilities to themselves and the Ummah as a whole.
- ✓ Khilafah are the relationship between man and Allah, man and fellow man, man and other elements of creatures of the universe man and his innermost self -Abdalati (1994)
- ✓ Has responsibility to all Muslims for what ever deeds they have done with regards to the resources that Allah has given.

- وَإِذْ قَالَ رَبُّكَ لِلْمَلَائِكَةِ إِنِّي جَاعِلٌ فِي الْأَرْضِ خَلِيفَةً قَالُوا أَتَجْعَلُ فِيهَا مَن يُفْسِدُ فِيهَا وَيَسْفِكُ الدِّمَاءَ وَنَحْنُ نُسَبِّحُ بِحَمْدِكَ وَنُقَدِّسُ لَكَ قَالَ إِنِّي أَعْلَمُ مَا لَا تَعْلَمُونَ
Behold, thy Lord said to the angels: "I will create a vicegerent on earth." They said: "Wilt Thou place therein one who will make mischief therein and shed blood?- whilst we do celebrate Thy praises and glorify Thy holy (name)?" He said: "I know what ye know not."

(Al- Baqarah:30)

- In governing the corporation, man is the central element for the system to be effectively working in the right route.
- Man is the shareholder, creditor, auditor, regulator, manager as well as the directors.
- It manifest that man plays the paramount roles in managing and lead to the attainment of company's vision and mission.

WHAT IS CORPORATE GOVERNANCE?

“ Corporate governance is 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 realising long-term shareholder value, whilst taking into account the interest of other stakeholders”.

-Malaysian definition as per Finance Committee on
Corporate Governance
(Report On Corporate Governance, February 1999)

“Good governance is not simply about corporate excellence. It is the key to economic and social transformation. The corporation of today are no longer sheer economic entities. These are the engines of economic and social transformation.”

-Dr Madhav Mehra
President of World Council For Corporate Governance

Corporate Governance is the system by which companies are directed and controlled. Board of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate structure is in place.

-Cadbury Report 1992

According to Anglo-Saxon definition, Corporate Governance refers to the set of mechanisms designed to maintain an appropriate balance between the rights of shareholders and the need of the Board and Management to direct and manage the corporation's affairs and ensure the company optimises over time the returns to shareholders

- Anglo-Saxon

In the view of corporate governance is concerned, the company directors management as well as the auditors should perform their professional duties with the objectives of satisfying the needs of the shareholders and Allah as well. Corporate governance is aimed of enhancing accountability, transparency and trustworthy. The values are paramount in ISLAM.

- Quran

PRINCIPLES OF CORPORATE GOVERNANCE

- 
- ➡ **Accountability**
 - ➡ **Transparency**
 - ➡ **Fairness**
 - ➡ **Responsibility**

ACCOUNTABILITY

- ❑ In terms of accountability, Muslims believe that they will be accounted for what ever they do in this world and in the hereafter (life after death)**
- We need to fulfill the will of Allah to seek Allah's pleasure (redha)**
- Every action must be in line with Islamic teaching**

There should be no such fraud and material misstatement exist if the concept could be internalized and could be reflected in their conducts.

The Holy Prophet (peace be upon him) says :

“Each one of you is a guardian and each guardian is accountable to everything under his care”

TRANSPERANCY

- ❑ The concept of transparency has been divulged by Allah in the follwing ayat

O ye 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 write down faithfully as between the parties

(Al-Baqarah:282)

- Corporation is responsible to a wide spectrum of stakeholders
- Aims should not strictly on monetary values but social responsibility to the Ummah
- Corporation should disclose information regarding its policy. Activities undertaken such as the CSR.
- Islam system urges integrity and honesty in the management

“if he does not strive diligently to promote their welfare, he will not enter Paradise with them.” (Bukhari)

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

(Hanifa, 2002)

RESPONSIBILITY

- ❑ **The concept of trustworthiness stated in surah Al-Anfal (verse 27):**

“O ye who believe! betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you. “

- **It is highly regarded virtues in Islam, every individual within organization is required to subscribe the ethical conduct while carrying their commercial activities.**
- **Stewardship sense will lead all to utilize the possessions entrusted upon them to the best of their abilities as a form of submission to Him.**
- **Leader should be judge by how well wealth is managed by using the Islamic principle not by how big the wealth grown.**

- 
- Trustworthiness parallel with the concept of accountability'

The Holy Prophet (peace be upon him):

“ Righteous businessmen will be raised on the Day of Judgment ”

“A truthful merchant will be raised on the Day of Judgment together with the truthful and the martyrs”

FAIRNESS

- **Islam implants collective decision – making, tolerance, civil and political liberty, and resolve it.**

It is part of the Mercy of Allah that thou dost deal gently with them Wert thou severe or harsh-hearted, they would have broken away from about thee: so pass over (their faults), and ask for (Allah's) forgiveness for them; and consult them in affairs (of moment). Then, when thou hast taken a decision put thy trust in Allah. For Allah loves those who put their trust (in Him).

(Al-Imran :159)

- **Islam is uncompromising about independent justice**

Allah doth command you to render back your Trusts to those to whom they are due; And when ye judge between man and man, that ye judge with justice: Verily how excellent is the teaching which He giveth you! For Allah is He Who heareth and seeth all things

(An-Nisa :58)



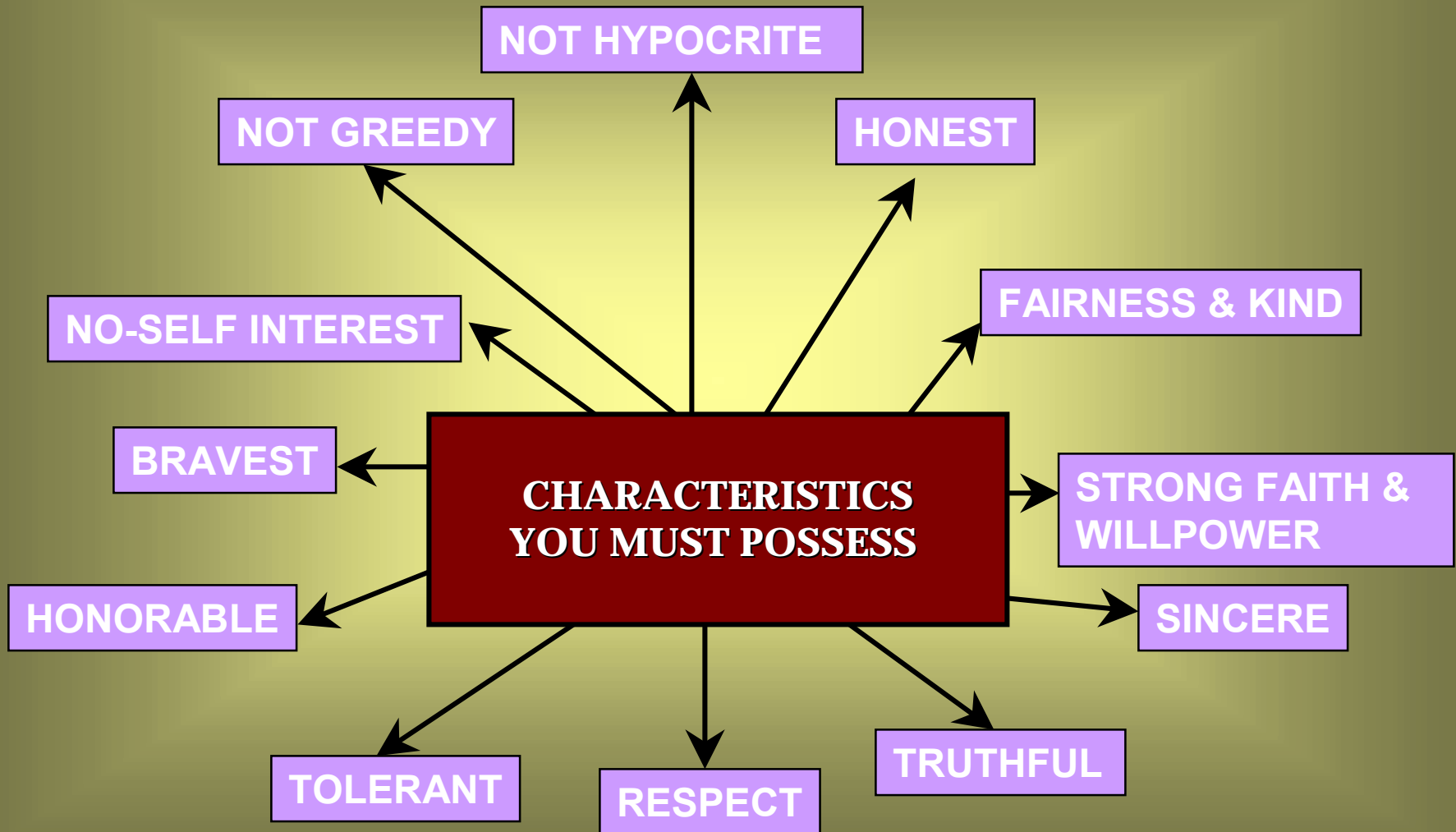
INGREDIENTS OF GOOD CORPORATE GOVERNANCE

IMPORTANT INGREDIENTS OF GOOD CORPORATE GOVERNANCE

- **Accountability**
- **Transparency**
- **Fairness**
- **Loyalty/Truthful**
- **Tolerant**
- **Trust**

- **Honesty**
- **Sincerity**
- **Integrity**
- **Fairness**
- **Competence**
- **Faith**
- **Not hypocrites**

Loyalty/Truthful



MUNAFIQS (HYPOCRITES)

The Character of the Munafiqs (Hypocrites)

- › The greatest sign of the Munafiq is his mentioning 'Allah' while he hides disbelief, rebellion and sin in his heart
- › Munafiq does not seem to be a non-religious person “from the outside”. Rather, he is a person who says that he believes in Allah and performs most of the acts of worship

“They swear by Allah that they said nothing (evil), but indeed they uttered blasphemy, and they did it after accepting Islam; and they meditated a plot which they were unable to carry out...”

(Quran, 9:74)

➤ Prophet Muhammad (peace be upon him)
said that :

*“ a hypocrite, when **he speaks, tells lies**, when **he promises, breaks his promise**. They abandon the believers in a slightest moment of difficulty and side with the adversaries of the believers. Their real character is revealed in times of distress”*

CHARACTERS OF THE HOLY PROPHET (peace be upon him)

- **Prophet Muhammad** (peace be upon him) was the most honorable, bravest and generous man. **Prophet Muhammad** (peace be upon him) was the most tolerant man that once the **Holy Prophet's** (peace be upon him) tooth was martyred by the enemies, but in return he prayed for their forgiveness.
- **Prophet Muhammad** (peace be upon him) was neither showing a desire to harm someone nor expressed his anger. But whenever he noticed some one crossing the limits prescribed by **ALLAH s.w.t**, he did express his anger and in that case no one stand it.
- **Prophet Muhammad** (peace be upon him) never looked down upon a poor person and he never filled with feelings of admiration by the realm of even a mightiest King.

source: Abu Hurairah ra

CHARACTERS OF THE HOLY PROPHET (peace be upon him)

- **Prophet Muhammad** (peace be upon him) never talked of any false thing. He was the warmest among the people on welcoming his visitors and kindest in conduct while talking to or dealing with others.

source: Abu Hurairah ra

- **Prophet Muhammad's** (peace be upon him) conduct was in fact the **Qur'an**.

source: Aishah ra

And the holy **Qur'an** confirms it in the following words. “and most rare you passes king moral excellence.

CHARACTERS OF SAIDINA ABU BAKAR AL-SIDDIQ r.a

Saidina Abu Bakar Al-Siddiq r.a risks his life for the safety of the **Holy Prophet** (peace be upon him). One day the **Holy Prophet** (peace be upon him) was saying his prayers in the **Kaaba**. Abu Jahl and some other chief of Mecca were sitting in the courtyard of the **Kaaba**. Abu Jahl took a long piece of cloth and was going to strangle the messenger of **ALLAH** to death. **Abu Bakar** happened to see this and he pushed Abu Jahl aside and took off the cloth from around the **Holy Prophet's** (peace be upon him) neck. Thereupon, **Abu Bakar** was beaten by the enemies of **ISLAM** and he fell down senseless.

Saidina Abu Bakar Al-Siddiq r.a was as sincere as he was firm in faith. He lived up to every word of what he said at the beginning of his Caliphate. He was never anything but the faithful agent of **ALLAH** and His **Messenger**, and the humblest servant of his people.

CHARACTERS OF SAIDINA OMAR BIN KHATTAB r.a

Saidina Omar Bin Khattab r.a's acceptance of **ISLAM** had made a big difference for **ISLAM** and Muslims. He stood by the side of the **Holy Prophet** (peace be upon him) in all battles and expeditions. Great was his love for **ALLAH** and His **Messenger**. He never allowed any blood ties or friendship to stand in the way of this love.

Saidina Omar Bin Khattab r.a become a great pillar of strength for **ISLAM**. He showed unusual courage and he was thorough in everything he undertook.

CHARACTERS OF SAIDINA OTHMAN BIN AFFAN r.a

Saidina Othman Bin Affan r.a was an extremely kindhearted man. He looked upon wealth as a means of helping others. If money could remove suffering, he was already to help.

Saidina Othman Bin Affan r.a was among those who were very close to the **Holy Prophet** (peace be upon him). He fought by the side of the **Holy Prophet** (peace be upon him) in all battles except Badr. He has given up the comfort of his home for the cause of **ALLAH**.

CHARACTERS OF SAIDINA ALI BIN ABI TALIB r.a

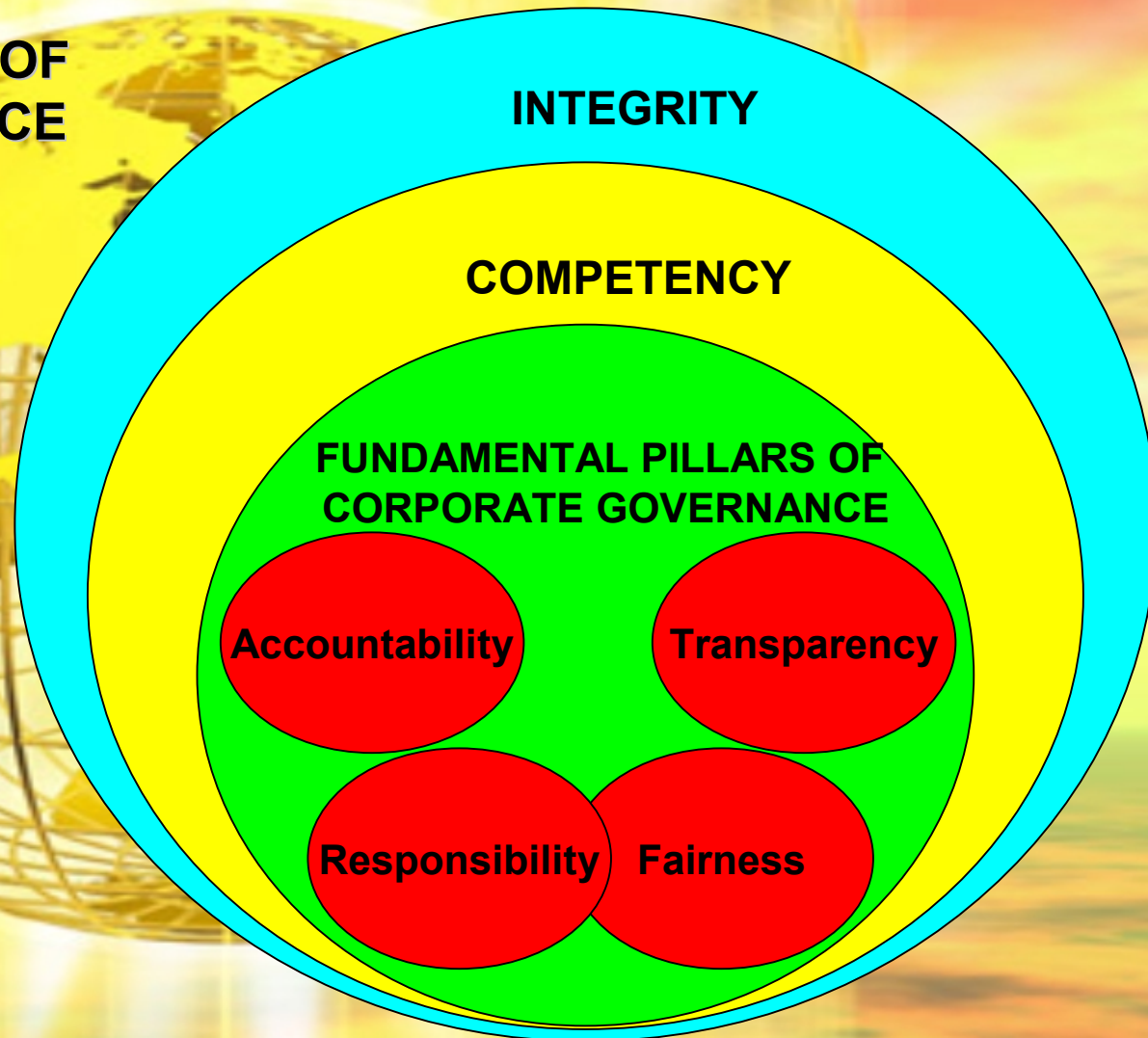
Saidina Ali Bin Abi Talib r.a grew up under the loving care of the **Holy Prophet** (peace be upon him). This gave him a keen vision of life and faith and a passionate love for truth. The **Holy Prophet** (peace be upon him) once said of him, “I am the city of knowledge and Ali is its gate.”

Saidina Ali Bin Abi Talib r.a was a fearless fighter in the way of **ALLAH**. These qualities were later to prove a valuable asset for **ISLAM**.



GOOD CORPORATE GOVERNANCE PRACTICES

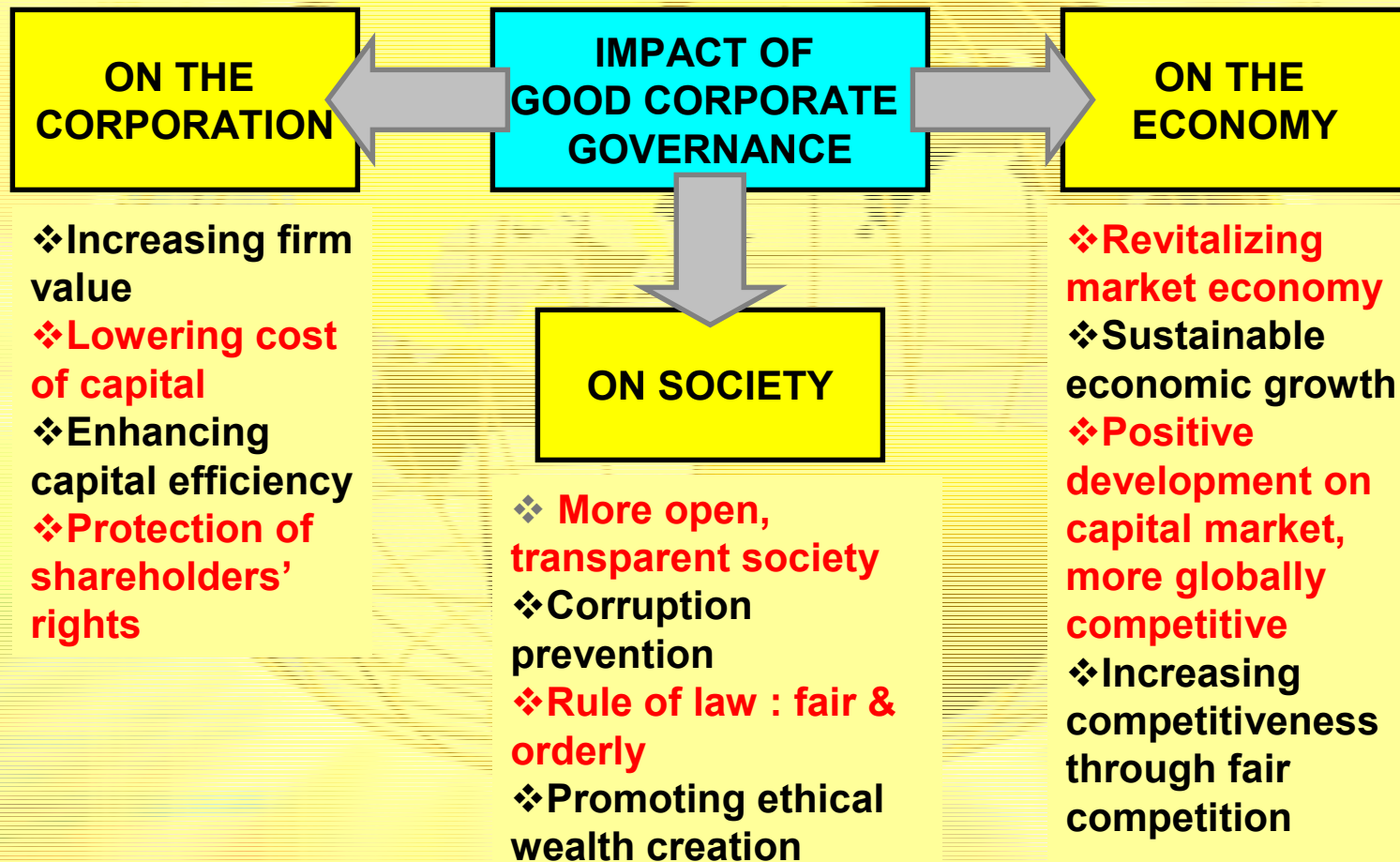
FUNDAMENTAL PILLARS OF CORPORATE GOVERNANCE



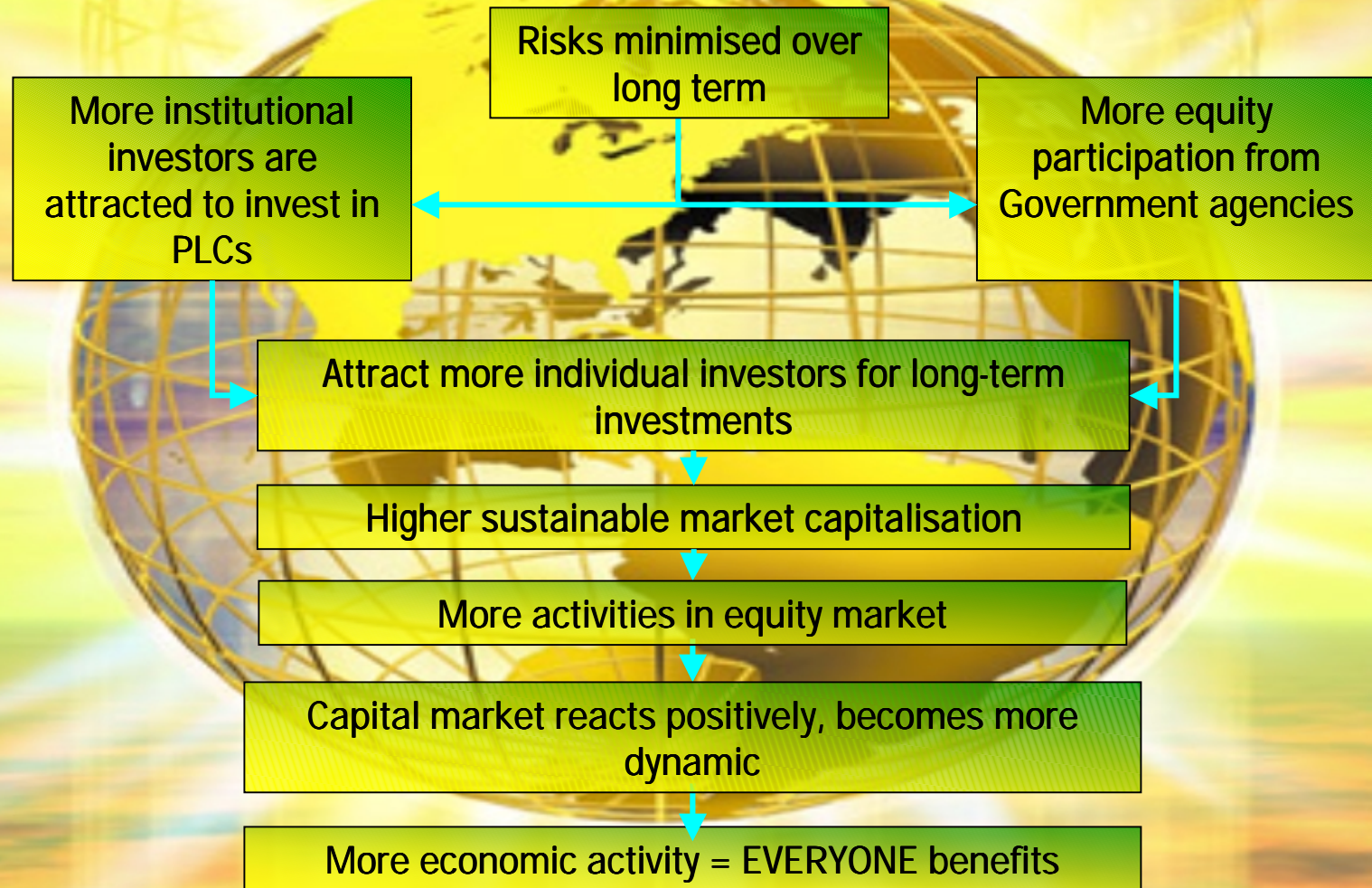



BENEFITS OF CORPORATE GOVERNANCE

BENEFITS OF GOOD CORPORATE GOVERNANCE

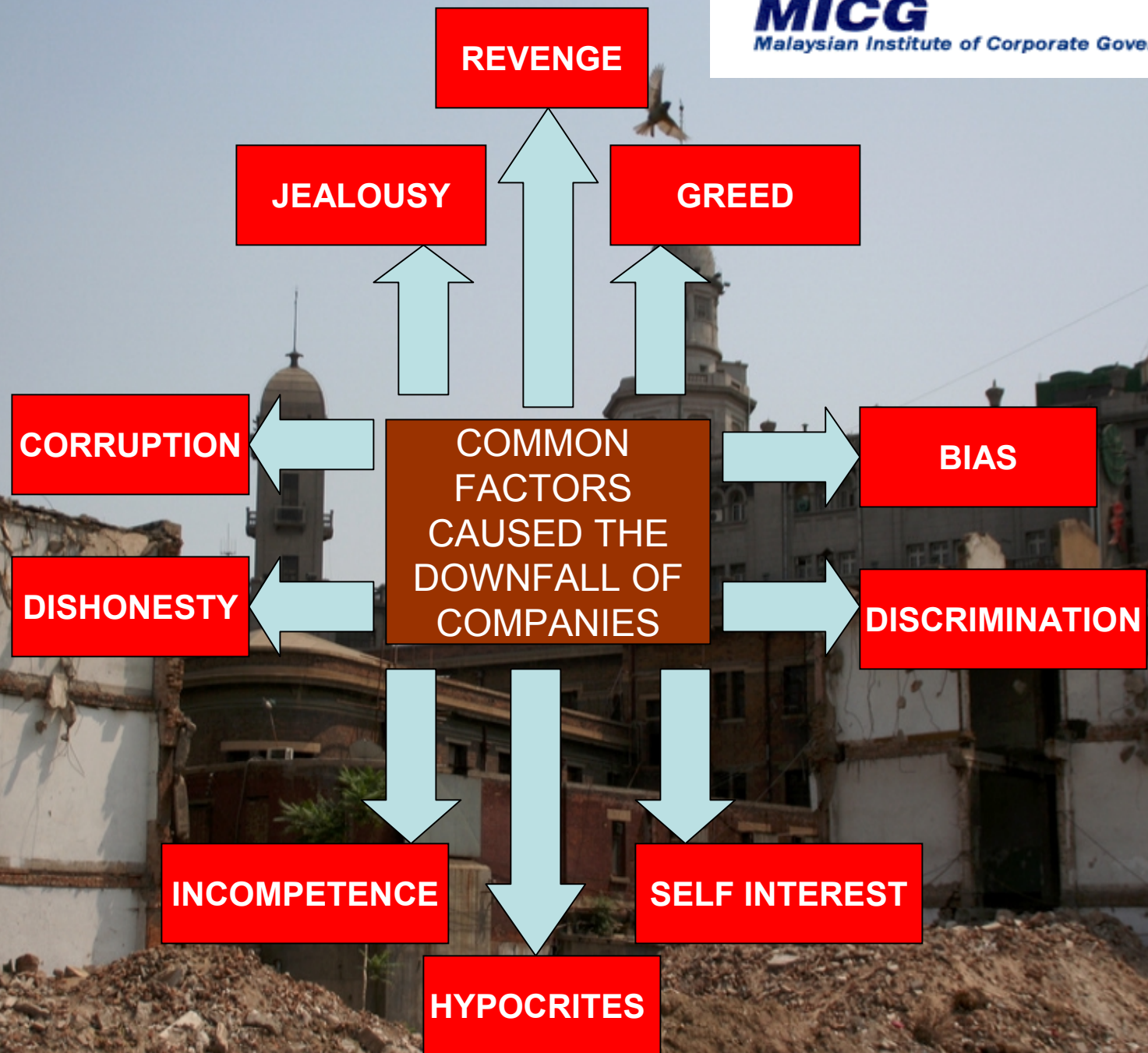


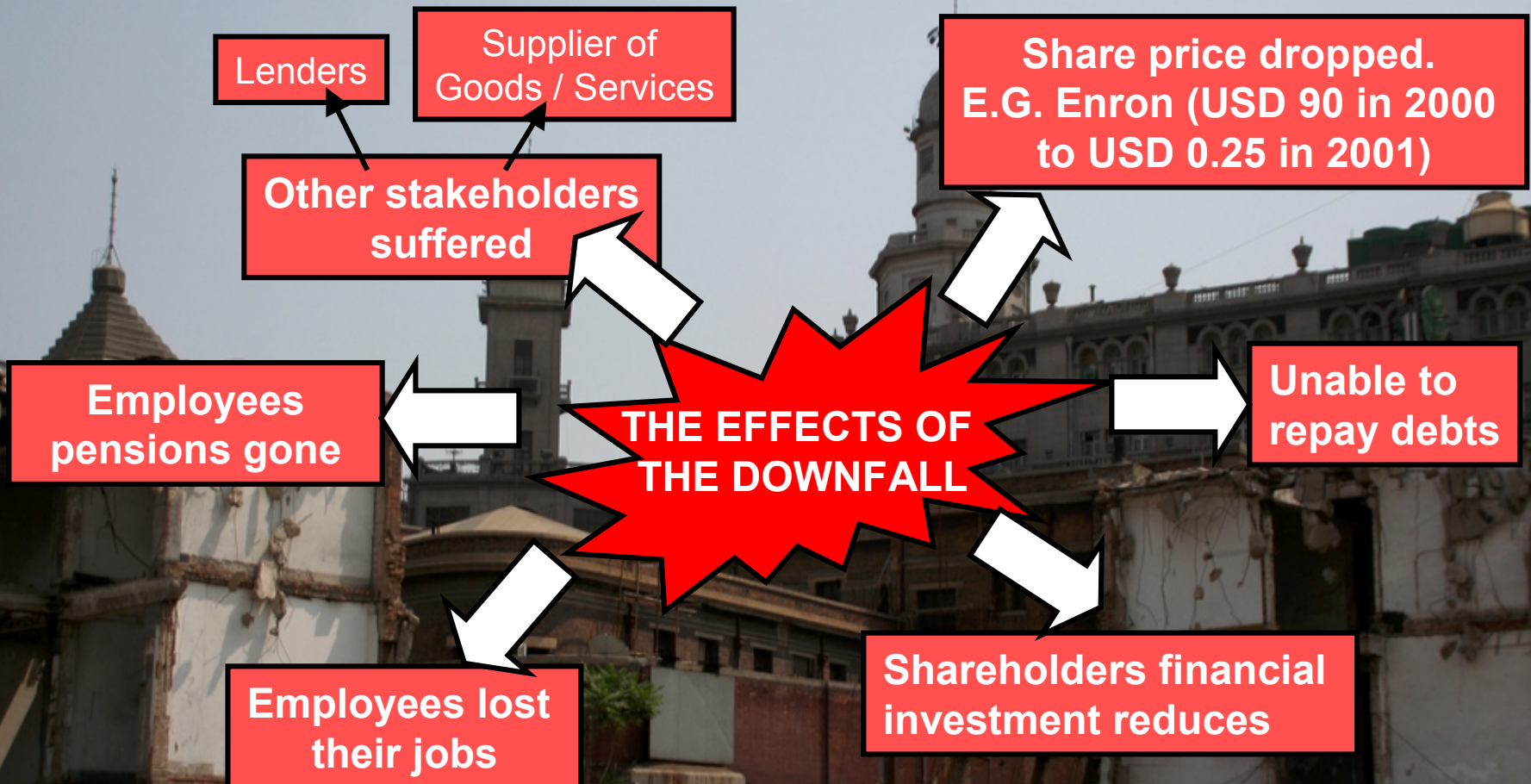
BENEFITS OF GOOD CORPORATE GOVERNANCE





COMMON FACTORS CAUSED THE DOWNFALL OF COMPANIES

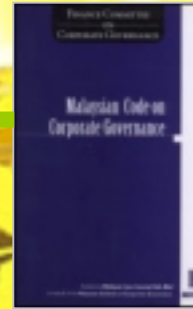




Principles of Corporate Governance



Best Practices in Corporate Governance



The Board of Directors

- Principal responsibilities of the Board
- Constituting an effective board
- Size of non-executive participation
- Board structures & procedures
- Relationship of the board to management

Accountability & Audit

- The audit committee

Shareholders

- The relationship between the board & shareholders

Principles & Best Practices For Corporate Governance





OBJECTIVES OF MICG

Objectives of MICG

To be a leading organization for enhancement of corporate governance development and best practices through continuing education programme for company directors, chief executives officers, company secretaries, company advisers, company auditors, accountants, lawyers, members of audit committees and investors in Malaysia

To be recognized organization for corporate governance issues through roundtable forums and dialogues, public seminars and conferences, and lecture series for corporations, institutional investors, business and professional bodies, educational institutions.

To establish linkages and networking with the leading corporate governance references and research organizations

To be an authoritative facilitator and the organization for advisory technical and support services on implementation of corporate governance best practices and to work in collaboration with relevant authorities and regulatory agencies

Objectives of MICG

To complement the regulators : Securities Commission, Company Commission Malaysia and Bursa Malaysia with regards to Corporate Governance matters. MICG to the best of its ability work closely and reciprocate with the said organizations, Malaysian Institute of Integrity and other related bodies in the uplifting of integrity and Governance in the corporate sector.

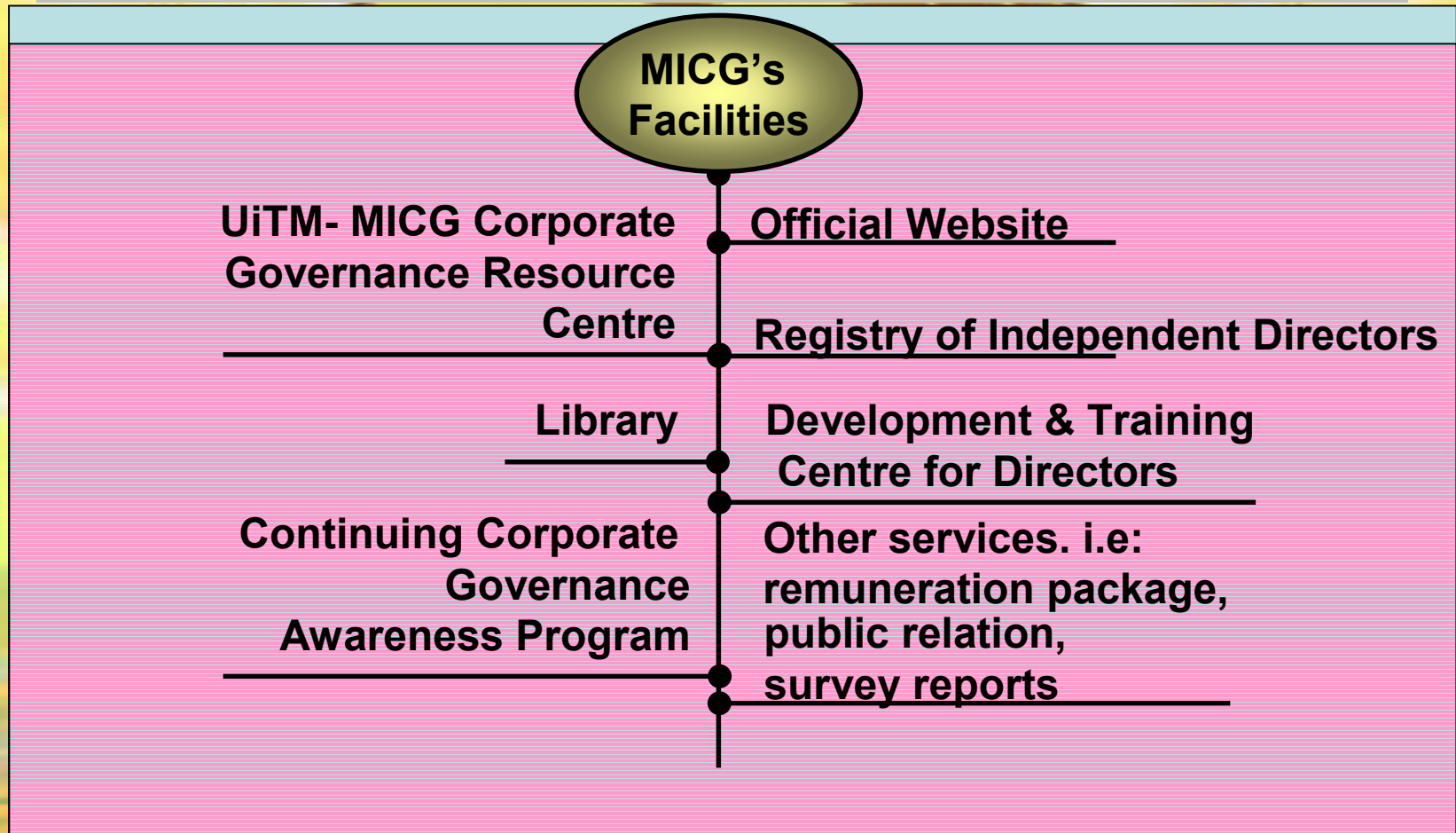
To be independent, fair and truthful in providing input or information to enhance the performance of public listed companies to intended investors from within and outside Malaysia.

To act as independent body to conduct Corporate Governance Ratings credibility, especially for Public Listed entities



FACILITIES PROVIDED BY MICG

Facilities Provided by MICG



DEVELOPMENT & TRAINING

MICG

Malaysian Institute of Corporate Governance

CONTINUING
CORPORATE GOVERNANCE
AWARENESS PROGRAM

SEMINARS

CONFERENCES

WORKSHOP
(DESIGNED FOR IN-HOUSE)

30 MODULES

MODULE I

MODULE II

MODULE III

MODULE IV

MODULE V

MODULE VI

MODULE VII

MODULE VIII

ETC..

EDUCATION

FUNDAMENTALS OF CORPORATE
GOVERNANCE PROGRAMME (BASIC)

MICG

CORPORATE GOVERNANCE
CERTIFICATE ADVANCED
PROGRAMME (ADVANCED)

MICG+ Higher Learning Institutions

PROFESSIONAL CERTIFICATION OF
CHARTERED CERTIFIED
(CERTIFIED)

MICG+ External Established Institutions

DIRECTORS

PROFESSIONALS

LAWYERS

COMPANY SECRETARIES

CG OFFICERS

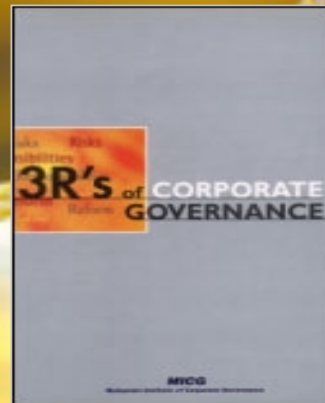
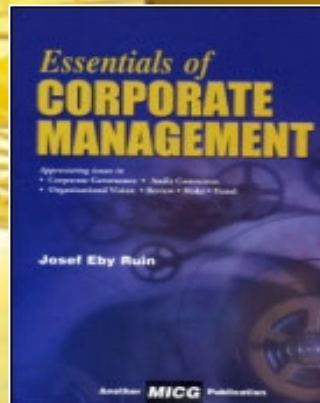
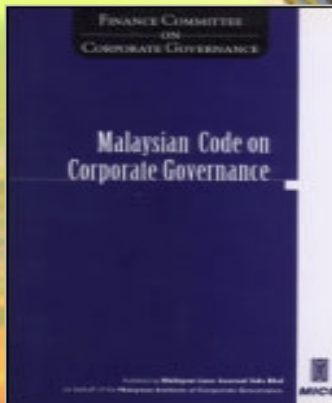
ACCOUNTANTS



PROJECTS IN THE PIPELINE

MICG's Publication On Corporate Governance

- ❖ Malaysian Code on Corporate Governance
- ❖ Corporate Governance: An International Perspectives
- ❖ Essential of Corporate Management
- ❖ 3R's of Corporate Governance
- ❖ Independent Director: Perceptions, Roles and Responsibilities



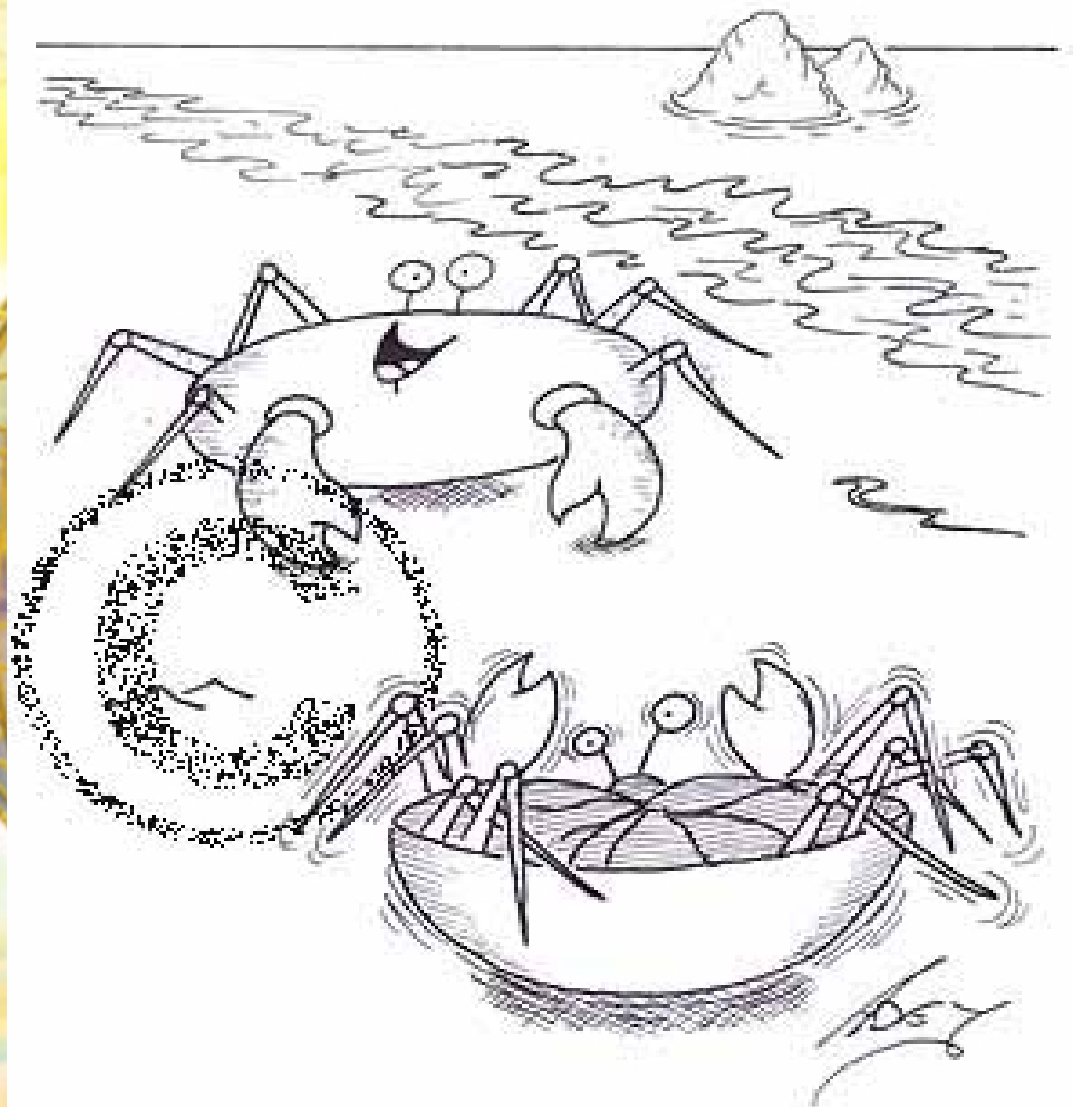
CONCLUSION

Be true to

- ✓ Yourself
- ✓ Your Family
- ✓ Your Organization
- ✓ Your Country



"As the crab teaching the baby crab to walk straight"



"...And that son is what happens when we try to walk forward."

ABU BAKAR AL-SIDDIQ Radhia Allahu Anaha – Famous Aspects

1. Kind-hearted. His heart melted when he saw someone in trouble and he did his best to help him. He was so **honest** in his dealings that people kept their money with him.

2. Abu Bakar Al-Siddiq (truthful) had a sincere heart and a firm will. Nothing could stop him from doing what he thought was the right thing to do

3. The title of SIDDIQ. Abu Bakar earned this title because of his faith was too strong to be shaken by anything. He would believe anything that the Prophet says. **SIDDIQ** is a person so **sincere** of heart.

ABU BAKAR AL-SIDDIQ Radhia Allahu Anaha – Advices

Abu Bakar Al-Siddiq as a leader gave the following instruction to his commanders:

- A. Always fear Allah. He knows what is in men's heart.
- B. Improve your conduct first; others will improve when they see your example.
- C. Be always truthful so you can get good advice.
- D. Keep away from untruthful men. Be intimate with truthful and faithful companions.
- E. Be sincere to all whom you have dealings.
- F. Beward of cowardice and dishonesty.
- G.Direction given should be brief. If too long, they are likely to be forgotten.
- H.When you are free, sit among your men. This will keep in touch with them.



CORPORATE GOVERNANCE

