CORPORATE GOVERNANCE IN ISLAMIC PERSPECTIVES

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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 لِيَعْبُدُونَ

“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 KHALIFA
✓ It is the status of mankind’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.
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”
The concept of transparency has been divulged by Allah in the following 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)
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
Characteristics you must possess:

- Honorable
- Respect
- Fairness & Kind
- Bravest
- Not greedy
- Honest
- No-self interest
- Truthful
- Strong faith & willpower
- Sincere
- Tolerant
- Not hypocrite
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”
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.
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.
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.
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

- Accountability
- Transparency
- Responsibility
- Fairness
BENEFITS OF CORPORATE GOVERNANCE
BENEFITS OF GOOD CORPORATE GOVERNANCE

ON THE CORPORATION

- Increasing firm value
- Lowering cost of capital
- Enhancing capital efficiency
- Protection of shareholders’ rights

IMPACT OF GOOD CORPORATE GOVERNANCE

ON SOCIETY

- More open, transparent society
- Corruption prevention
- Rule of law: fair & orderly
- Promoting ethical wealth creation

ON THE ECONOMY

- Revitalizing market economy
- Sustainable economic growth
- Positive development on capital market, more globally competitive
- Increasing competitiveness through fair competition
More equity participation from Government agencies

More institutional investors are attracted to invest in PLCs

Risks minimised over long term

Attract more individual investors for long-term investments

Higher sustainable market capitalisation

More activities in equity market

Capital market reacts positively, becomes more dynamic

More economic activity = EVERYONE benefits

BENEFITS OF GOOD CORPORATE GOVERNANCE
COMMON FACTORS CAUSED THE DOWNFALL OF COMPANIES
COMMON FACTORS CAUSED THE DOWNFALL OF COMPANIES

REVENGE

JEALOUSY

GREED

CORRUPTION

DISHONESTY

COMMON FACTORS CAUSED THE DOWNFALL OF COMPANIES

BIAS

DISCRIMINATION

INCOMPETENCE

SELF INTEREST

HYPOCRITES

JEALOUSY

GREED

CORRUPTION

DISHONESTY

REVENGE

BIAS

DISCRIMINATION

INCOMPETENCE

SELF INTEREST

HYPOCRITES
THE EFFECTS OF THE DOWNFALL

Share price dropped. E.G. Enron (USD 90 in 2000 to USD 0.25 in 2001)

Unable to repay debts

Employees lost their jobs

Employees pensions gone

Shareholders financial investment reduces

Other stakeholders suffered

Supplier of Goods / Services

Lenders
Principles of Corporate Governance

Directors
- The Board
- Board Balance
- Supply of Information
- Appointments to the Board
- Re-election

Directors’ Remuneration
- Level & Make Up of Remuneration
- Procedure
- Disclosure

Shareholders
- Dialogue between companies & investors
- Annual General Meeting

Accountability & Audit
- Financial Reporting
- Internal Control
- Relationships with Auditors
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

Shareholder Voting
Dialogue between Companies & Investors
Evaluation of Corporate Governance
External Auditors
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

- UiTM- MICG Corporate Governance Resource Centre
- Registry of Independent Directors
- Library
- Development & Training Centre for Directors
- Continuing Corporate Governance Awareness Program
- Other services. i.e: remuneration package, public relation, survey reports
DEVELOPMENT & TRAINING

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 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. Beware 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.