# SHARIAH GOVERNANCE FOR ISLAMIC CAPITAL MARKET: A STEP FORWARD

**Nawal Kasim**
**Accounting Research Institute, Faculty of Accountancy**
**UniversitiTeknologi MARA, Shah Alam, Malaysia**

**Sheila Nu NuHtay**
**Institute of Islamic Banking and Finance**
**International Islamic University Malaysia, Gombak, Malaysia**

**Syed Ahmed Salman**
**PhD. Candidate and research assistant at Institute of Islamic Banking and Finance,**
**International Islamic University Malaysia, Kuala Lumpur**

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## Abstract

Since the last few decades, Islamic finance industry has developed tremendously penetrating not only the Muslim countries but surprisingly the non-Muslim countries as well. It has been acknowledged by the scholars on the need for this development to cater for the Islamic banking, Takaful and Islamic capital market industries. These three main industries are interrelated and dependent on each other in order to ensure that the whole Islamic financial system is in compliance with the Islamic principles. Among these three streams of the service industry, the Islamic capital market plays a crucial role to support the other two. Since Islamic banks and Takaful operators have to invest to provide the benefits to the investors and policy holders which are compatible with the conventional counterparts, the Islamic capital market is assumed to be the backbone for the two to survive and grow in the Islamic finance industry. Country such as Malaysia has issued the Shari'ah Governance Framework (SGF) specifically for Islamic banking sector in its most recent development. Since the framework does not cover Islamic capital market, it is the objective of this paper to investigate on the need for a similar requirement to have a comprehensive Shari'ah governance framework for Islamic capital market.

**Key words:** Shari'ah governance, Islamic Capital Market, Framework and Malaysia

## 1.0 Introduction

History has shown that the discussion about corporate governance can be traced back from the emergence of the corporation. The issue is not new; however lately it has given tremendous global attention to the regulators, industry players, investors and researchers due to the financial crisis and downfall of giant companies. Many developed, developing countries and international organizations have derived with the best practices of corporate governance standards in the form of codes of corporate governance to guide the players in monitoring the performance of their respective companies. In other words, the boards of directors are assigned responsibilities for their actions in managing both bad and good performance of the companies.

One of the dominant theories of corporate governance, agency theory, recognizes the need of monitoring system to ensure that board of directors are performing according to the interest of the owners. This theory seems to assume that board members need a good governance standard to make them accountable for their actions and decisions and finally to achieve goal congruence between board members and owners. From the Islamic perspective, governance structure brings into focus the measures that need to be taken to strengthen the organization as a whole. One of these measures is the creation of an enabling environment such as proper market discipline in a sector such as a financial sector, moral integrity on the part of the institutions within the sector, as well as users of funds, an appropriate socio-political environment along with the needed shared institutions, and effectively enforced legal and institutional checks (M. Umar Chapra & Habib Ahmad: 2002).

The drastic growth of Islamic financial Institutions (IFIs) worldwide is seen as a sign that the religion of Islam is not separated from the business. Islamic finance is currently in existent not only in the middle east countries, but has spread into countries like The UK, Australia, and Denmark etc. Being an Islamic organization which should be different from its conventional counterparts specifically in terms of vision and mission, the corporate governance of organizations with Islamic finance operations should also be unique using its own framework with a different methodology.

The board members who are attached to the Islamic finance industry have additional responsibility to perform, compared to the conventional industry. This additional responsibility which is known as the second tier responsibility is a unique feature that makes the difference. It is to ensure that the whole Islamic finance industry is operating under the umbrella of Shari'ah. This dual accountability is a big task for the top corporate players to discharge as they are answerable to God (Allah SWT) on top of all other involved parties (Rosnia and Zurina, 2013). This is because in Islam, a person has to maintain good relationships not only among other mankind (Hablumminan Naas) but more important with God (HablumminAllah). In order to fulfil this additional responsibility of board members of Islamic organizations, many countries like Malaysia and international organizations such as AAOIFI and IFSB have introduced Shari'ah governance framework (SGF). However, these guidelines do not cover for the specific needs of Islamic capital market (ICM) yet.

ICM has a very crucial role in the process of developing and widening the scope of overall Islamic financial industry. The vehicle of Islamic finance will not be able to run without the prevalence of the vibrant and resilient ICM in the system. The very absolute abolishment of interest by Islamic doctrine in all forms of financing and business dealings has confined Islamic banks, Takaful and other sectors largely to involve in the Shari'ah compliant investment. In addition to that, ICM is of the top avenue to invest and seek financing. Consequently, all Islamic financial institutions have to venture their deposits, savings and surpluses in the Shari'ah compliant stock market ultimately (Hassan and Girard, 2011).

The key function of ICM is to channelize funds from surplus unit income to deficit unit and to allocate the resources efficiently. In contrast to the conventional capital market, the investors in ICM cannot get fixed rate of return and thus, it is really important for the players in ICM can generate the return from the investment activities so that investors in ICM are well paid as profit. Otherwise, the investors in ICM will withdraw their investments and hence it will result in withdrawal risk due to the profit rate risk (International Shari'ah research academy, 2012). In addition to generate the good return from the investment, the issuers of the *Sukuk* are required to get the approval from the Shari'ah board members before they issue and carry out the proceeds from the *Sukuk* in the Shari'ah compliant investments(Rodeny Wilson, 2006). Therefore, the research and development in this particular phenomenon is very much needed with respect to structuring innovative Shari'ah compliant products and to guide how to choose the best Shari'ah compliant portfolio as investment and how to share the profit and loss with the original investors in ICM. Since the players of ICM are required to carry on these additional tasks, in our opinion, they should have the proper guiding framework, i.e. SGF specific to ICM. Therefore, the objective of this research is to examine whether SGF is necessary for ICM in Malaysia by thoroughly reviewing the literature.

This paper is organized in five sections. The second section examines the importance of corporate governance from the conventional and Islamic perspective. The third section discusses about ICM, including its growth and challenges. In the case of fourth section, this paper explains the Shari'ah governance and its importance in Islamic finance industry and the last section concludes.

## 2.0 Importance of Corporate Governance

### 2.1 Importance of Corporate Governance from the Conventional Perspective

Having a good corporate governance system in a company does not rest on the shoulders of one party or one individual. It is the responsibility of all involved and the affected parties because poor corporate governance system may lead to corporate failure, which affects the wealth of the shareholders, in particular, as well as the welfare of other stakeholders, in general. This is demonstrated by the recent corporate failures, for instance, Lehman Brothers case (Sun, Stewart and Pollard, 2013) and financial crisis.

Ruin (2001) asserts that a group of directors, as a corporate control, is selected by the shareholders to monitor the performance of the management on their behalf. The directors become the agents of the shareholders to fulfil the interest of the principals (i.e. shareholders) and they are directly accountable to the shareholders. Accordingly, directors are responsible for supervising the activities of the management by providing proper and strategic instructions and then checking and monitoring how the management uses the assets to maximize the benefits of the shareholders

(Lefort & Urzua, 2008). Hemraj (2003) also elaborates that directors are responsible to (a) safeguard the assets of the company, (b) prevent and detect fraud and other irregularities, and (c) maintain adequate accounting records. Hence, effective board is essential for the betterment of the companies. It is supported by the findings of prior researchers such as Sharma (2004), ShamsulNahar (2006), Sharma (2006), Wang and Deng (2006), and Charitou, Louca and Vafeas (2007).

In addition, the inclusion of board members in the Board Audit Committee puts more responsibility on the shoulders of the board of directors. The aim of this committee is to enhance effective corporate governance. Some of its functions are to (a) monitor the integrity of companies' financial statements, (b) review companies' internal audit functions, (c) make recommendations to the board in relation to the appointment of the external auditor, and (d) review the maintenance of accounting and operational systems and effective controls. It also ensures that there are checks and balances in the management of organizations (Ruin, 2001; Solomon & Solomon, 2004). Therefore, it could be summarized that this committee oversees financial reporting, internal control, and audit functions.

When the important role of corporate governance is examined from the agency theory perspective, directors are delegated the authority by the shareholders to monitor the management of the company. Therefore, the directors are indirectly responsible for the smooth running of the company, which is in line with the interests of the shareholders. However, due to the separation of ownership and control, agency problems such as moral hazard and adverse selection, could occur and directors might maximize their own interests at the expense of the shareholders (Jensen & Meckling, 1976; Millson & Ward, 2005). This means that directors' conduct might not be in line with the best interests of the shareholders. Thus, 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) since it promotes goal congruence (Conyon & Schwalbach, 2000; Cheung & Chan, 2004).

## 2.2 Importance of Corporate Governance from the Islamic Perceptive

If the importance of corporate governance is examined from the Islamic perspective, we believe that it is originated from the concept of Islamic accountability. Shahul Hameed (2000) defines Islamic accountability as a dual accountability; i.e. prime accountability due to a trustee of *Allah's* (s.w.t) resources and secondary accountability due to contract between an owner or an investor and a manager. 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.

Hence, human beings are responsible for discharging their responsibility as trustees and complying with Islamic teachings in all aspects of their lives. However, in practice, they might not fulfil their responsibility because men are given free will (Qur'an, 2:30, 74:38, 90:10, and 91:8). Hence, the researcher believes that every act of human beings is accountable because of these two reasons (i.e. trusteeship and free will).

On the Day of Judgment and *Allah* (s.w.t) will judge all the deeds of people and if they more good deeds than bad deeds will be rewarded, whereas a person with more bad deeds will be punished (Shahul Hameed, 2001). He further elaborates that everyone in this world is seeking *Allah's* (s.w.t) pleasure and these can be attained by discharging the responsibility and trust to other fellow creations, Muslims, non-Muslims, animals and the environment, for instance, fulfilling the promise or contract and taking care of the environment. Hence, it could be inferred that if Muslim directors want to attain *Allah's* (s.w.t) pleasure, they must discharge their responsibility towards the respective bodies such as shareholders and employees. That is why the role of secondary accountability becomes an important accountability for Muslim directors. Directors are holding the leadership position in the companies and so they have heavy responsibilities to be discharged, otherwise, the leaders will be held (a) accountable to *Allah (s.w.t)* for all actions in regard to the people they are put in charge of,[1] and (b) also to the parties who will be affected because of Muslim directors' actions or decisions.

With regard to directors' duty towards the shareholders, they are responsible for providing proper instructions and ensuring that the management follows their instructions. Hence, it would be expected by the shareholders that if directors carefully monitor the management, the company's performance will be good, and consequently it will fulfil the shareholders' purpose of hiring directors. The above argument is supported by Ahmad (1995) who states that the best employee is one who is efficient and trustworthy(Qur'an, 3:145, 3:185, 4:78, 21:35, 33:16, 62:6, 39:20) and the job assigned to him is a trust and so he must fulfil the trust sincerely. Hence, the directors should try their best to meet the expectations of the shareholders, provided that their expectations are in line with the Shari'ah. Directors are not only responsible for monitoring the management, but also for the annual report, which allows the shareholders to check the performance of directors. The annual report is also used by shareholders to fulfil their religious obligations, for example, to calculate the payment of *zakat*. Hence, the annual report should reflect the true financial position and performance of the company.

Regarding the directors' relationship with the employees, they must treat workers properly, respect them and fulfil the promises and contracts made with them. Directors are obligated to properly compensate their employees in terms of salary or wages, provide a good working atmosphere, good working conditions, allocate proper benefits and allow employees to have time with their families[2]. Once the contract based on the mutual consent of the employer and the employee is finalized, the former is morally and legally obligated to be fair, generous and prompt in paying the wages, while the latter is obligated to do his job sincerely and efficiently. Employers are also encouraged to pay a wage which will allow the employee to have a similar standard of living as the employer (Shahul Hameed, 2001).

In addition, they are required to take care of the environment since it is the creation of *Allah* (s.w.t) for the benefits of human beings (Qur'an, 13:2-4, 21:79, 17:44).*Allah* (s.w.t) has provided the natural resources not only for existing, but also for future generations (Khalid, 2006). Hence, Muslims should seek to protect and preserve the environment as part of the corporate social

[1]http://www.muhajabah.com/islamicblog/archives/veiled4allah/006425.php
[2] http://www.nicwj.org/images,etc/qrnwj.pdf

responsibility. Destroying the environment and depleting its natural resources are considered as mischief, which is disliked by *Allah* (s.w.t) (Qur'an, 7:58). Therefore, Muslim directors, as trustees of *Allah* (s.w.t) should not engage in any activities which have a negative impact on the environment.

Directors are required to incorporate Islamic teachings in monitoring and guiding the top management. According to Abdul Rahim (1998), the Islamic corporate governance system should be based on the concept of *shuratic* decision making, *hisbah* and *shariah* auditing. *Shuratic* decision making is a decision making process which promotes Islamic moral values. This type of decision-making process is important in business dealings because of the following reasons. The first reason is that if a decision affects more than one person and only one person makes the decision without the consensus of others, the decision might not be agreed by others and it will lead to conflict among them. Secondly, the decision maker might only think of his own benefit, neglecting the rights of others so that the decision made by him might not be for the betterment of all parties. Finally, Islam emphasizes truthfulness, justice and the consensus among the participants because it will create unity among the team members and it will lead to the better performance of the organization. As Muslim directors, they are aware that they will be accountable for their improper acts in this world, in the Hereafter and this accountability is unavoidable. Moreover, making the decision for others imposes great responsibility on the decision makers. It is also believed that God-conscious individuals will not make any decision without the *shuratic* decision making process, thus an Islamic corporate governance system should have room for the *shratic* decision making process.

*Hisbah* is a system of enjoining what is just and right and forbidding what is unjust and indecent (Ahmad, 1995). This system is run by the *muhtasib* (supervisor), whose responsibilities are to command the fulfilment of trust, to prohibit all evil and in order to prevent the instances of fraud in all sorts of transactions. Directors who are the trustees of the shareholders may also play their roles as *muhtasib* by instructing and monitoring the management to make sure that the business activities are in line with the Shari'ah. Furthermore, they are responsible for the performance of the company as a whole since they are the persons responsible for laying down the principles that managers have to follow. Thus, the Islamic corporate governance system should comprise the concept of *hisbah* and *muhtasib* so that this system will guide the directors in discharging their responsibilities.

Directors are not only responsible for providing the rules and regulations that the managers need to follow, but also for checking whether the managers are complying with the rules and regulations laid down by the directors. According to Abdul Rahim (1998), Shari'ah auditing includes ex-ante auditing, ex-post auditing and payment of *zakat*. Ex-ante auditing includes advising the board of directors to ensure that all transactions are consistent with the Shari'ah. Ex-post auditing involves ensuring that the managers have complied with the instructions given by the directors. Finally, the accurate amount of *zakat* payment is important in Islam because this payment is a religious obligation that all of us need to fulfil. The corporate governance system should be integrated with the Islamic principles to run the companies for better performance as well as stricter compliance with Shari'ah principles. Hence, the Islamic corporate governance system should emphasize the concept of Shari'ah auditing in order to guide the directors in discharging their responsibilities.

### 3.0 Islamic Capital Market, Its Growth and Challenges

Generally, ICM refers to longer-term of securities either based on debt or equity is being traded in the market. The nature is very similar to the conventional capital market but the main distinguishing factor is the operation and financial instruments offered must be Shari'ah compliant. Thus, its function should not breach the main elements underpinning the Shari'ah principles such as interest, prohibited commodities and uncertainty. Fundamentally, there are two main components under the Islamic capital market, namely the Islamic debt market such as *Sukuk* and Islamic equity market such as Shari'ah compliant stocks. The Islamic debt securities are meant to finance long-term infrastructures and risks emanate from these securities can be diversified. On the other hand, the Islamic equity securities are form of capital raising exercises for investors to participate (ISRA, 2011).

The emergence of ICM was in the late 1990s due to the market demand and interest garnered from the investors for Shari'ah compliant investments. It was introduced at a later stage of the Islamic banking and finance development as Islamic finance gradually moves toward a much more sophisticated area with a wide-range of complex financial products. There are two main reasons highlighted on why ICM is being resorted to, namely the financial crisis happened in 1997 and to cater the problem with regard to liquidity faced by most of the Islamic banks. Countries like Malaysia and Kuwait prompted to set forth the usage of *Sukuk* to facilitate the asset management (IOSCO, 2004). There is an existence of growing demand to liquidate, diversify and manage funds for Islamic banks and Takaful operators (Rathod& Sharma, 2010). Since then, the sector has enriched the Islamic financial products progressively and the regulatory framework in relation to ICM is also regularly checked and enhanced. These efforts indicate an encouraging support from the authority and the financial markets as a whole. Notwithstanding, it is still a small niche as compared to the conventional counterpart, the growth of ICM is undeniably significant. This is evidenced by a wide range of financial innovations of products and services are being offered in the market. The growth basically comprises the spectrum of the Shari'ah compliant funds, Shari'ah stock or equity market, rating agencies for *Sukuk* and many Shari'ah index providers.

In spite of the greater demand and positive growth of this market, there are challenges inevitably faced by ICM players. While the financial instruments must remain Shari'ah compliant, they offer higher returns but proportionately to risky activities. The inherent risks borne by the Islamic investment banks are higher than the retail banks. Due to this, the incentives to develop particularly risky financial offerings are at minimal stage (Damak, 2009).

There is a limited scope of secondary trading in the ICM. It has been pointed out that secondary market is a vital ingredient for capital markets because it will provide investors to manage their liquidity requirement in a flexible manner. However, there is an insufficient of supplying Islamic financial instruments to promote the secondary performance (Aziz, 2007). It should be noted that the current practice in the secondary market is active with the buying and selling of money and debt, in which causes the price volatility to increase and raises the issue of improper possession during transaction. Such practice is clearly contradicted to the core principles of Shari'ah. Thus, a proper mechanism is needed for enhancement and disclosure to provide an appropriate listing rules (Salman Syed, 2008).

Moreover, rating and pricing of financial instruments in ICM is another challenging factor. So far, there is no standard rating criteria which are totally suit to the needs of ICM products. It is due to the fact that they are sophisticated and complex in nature as they replicate the conventional features but must be structured within the bound of Shari'ah principles. Thus, there is a need of a reliable and separate indicator for the rating and pricing. Salman Syed (2008) observes that there are issues in products when the credit rating agencies rate *Sukuk* instruments by reflecting only one party which is the guarantor. This entity provides the buyback promise or covers any default made by the issuer. As such, he concludes that there is a little emphasis on the potential income of the asset underlying the issuance of *Sukuk*. This renders *Sukuk* akin to the conventional bonds and it is also affirmed that rating agencies such as Standard and Poor apply the same criteria and ratings methodology to both Islamic and non-Islamic financial institutions (Damak, 2009).

In addressing the various new financial innovations and the development of this market, another perplexing factor is in relation to human resources. A greater emphasis is made upon having people who are qualified and equipped with the appropriate knowledge and skills in the Islamic financial markets. As Shari'ah compliance is the ultimate element in these financial instruments. Thus, we need the experts who are knowledgeable in the operations of conventional financial markets and well-versed in Shari'ah and transactions in Islamic law to assist the overall ICM operations. Khan (2009) has made a rough estimation of not more than 20 to 25 scholars would be regarded to have played an instrumental role in the globally Shari'ah advisory activities. This indicates that there is still a lack of competent Shari'ah scholars in understanding the current operations of financial activities and advances.

Another concern is whereby to date, Shari'ah scholars have been approached to evaluate the Shari'ah compliance of the instruments without them fully understands how its real operations. Khorshid (2009) points out that decision making by the Shari'ah scholars are driven by the often-misguided perceptions of derivative instruments. This has resulted to Shari'ah compliant risk, apart from other unique risks faced in the ICM.

## 4.0 Shari'ah Governance and its Role in Islamic Finance Industry

As the concept is still new, very few comprehensive definitions are found. It is very important to understand the concept of Shari'ah governance because it is essential to have clear picture of its definition and concept. It is apparent that the AAOFI Shari'ah governance standard does not provide any definition on it even though they have provided the standards on Shari'ah governance. Similarly, the standards issued by Central Bank of Malaysia too lack in comprehensive definition for Shari'ah governance and it just states that the objective of the Shari'ah governance is to set out expectations to ensure the Shari'ah compliance, to provide comprehensive guidelines for the board, Shari'ah committee and the management in fulfilling their duties relating the Shari'ah, and provide guidelines on issues related to Shari'ah review and etc. Thus, to the extent of our knowledge, there are limited comprehensive definitions of Shari'ah governance and in our opinion, IFSB (2009) seems to provide the most comprehensive definitions and it defines Shari'ah governance as "A set of institutional and organizational arrangements through which an IFS ensures that there is effective independent oversight of the Shari'ah compliance over each of the following structures and processes:

a) Issuance of relevant Shari'ah pronouncement/resolutions;
b) Dissemination of information on such Shari'ah pronouncements/resolutions to the operative personnel of the IFS who monitor the day-to-day compliance of the Shari'ah pronouncements/resolutions vis-à-vis every level of operations and each transaction;
c) An internal Shari'ah compliance review/audit for verifying that Shari'ah compliance has been satisfied, during which any incident if non-compliance will be recorded and reported, and as a possible, addressed and rectified
d) An annual Shari'ah compliance review/audit has been appropriately carried out and its findings have been duly noted by the Shari'ah board"

The foundation on which the Islamic banking is based is the Shari'ah, compared to the conventional counter-part which does not have any divine mandate. Hence, non-compliancy in Islamic financial institutions (IFIs) would destroy their fabrics (Laldin, 2008.). Grais and Pellegrini (2006) further state that the stakeholder's values should be the focal point of any business whether conventional or Islamic business for the long term success. In the case of Islamic finance industry, it is essential to gain the confidence of the stakeholders by portraying stability of the industry, higher financial performance and particularly compliance with the Shari'ah. The Shari'ah Governance Framework issued by BNM, (2012) states that:

> *"Shari'ah principles are the foundation for the practice of Islamic finance through the observance of the tenets, conditions and principles espoused by Shari'ah. Comprehensive compliance with Shari'ah would bring confidence to the general public and the financial markets on the credibility of the Islamic finance operations"*

According to Alnasser and Muhammed (2012) and Hassan (2012), in order to have Shari'ah compliance in all aspects, the guidance should come from the Shari'ah board members and the management should support for the implementation at every level of operations. They further state that the credibility of the Shari'ah board plays an important role for the legitimacy of the products. It should be noted that the independent of Shari'ah board from the management is important. Similar to the conventional corporate governance guidelines, there should be a framework in the form of policy or regulation to provide necessary independence to the Shari'ah board. As for the issues related to competence, conflict of interest and confidentiality, Shari'ah board should have the necessary professional knowledge and training as well as expertise in the operational aspect (Hassan, 2012). He further points out that a Shari'ah board member serving many institutions may cause this problem and consequently, this may negate the publics' confidence and are put to test with allegations of Shari'ah arbitrage. Thus, it needs to be regulated with clear restrictions of the number of institutions a Shari'ah board member could serve.

One of the vital elements of Shari'ah governance is the Shari'ah audit and review. Grais and Pellegrini (2006) elaborate that the potential conflict of interest might arise due to the remuneration decided by the management. Hence, it might impair the independence of Shari'ah board members from the management. The survey results of Hassan (2012) show that only 38.8 per cent of the IFIs disclosed their Shari'ah review process. Thus, this shows that majority of the investors and depositors are not sure of the *Shari'ah* review process executed by the IFI.

It leads to the issue of transparency of Islamic finance industry and in terms of disclosure on Shari'ah pronouncement and contents of Shari'ah rulings; the level is still very low. Thus, the transparency will only strengthen the confidence incredibility of Islamic finance industry with regards to the Shari'ah compliance (Grais & Pellegrini, 2006; Hassan, 2012). Their findings show that the disclosure quality in Malaysia, GCC countries and the UK does not seem to give attention on the Shari'ah pronouncements.

Therefore, we believe that there is an urgent need to have a good *Shari'ah* corporate governance framework that can mitigate the problems mentioned above. Subsequently, good Shari'ah corporate governance would help the Islamic finance industry to fulfill its ultimate objective, i.e. to achieve Maqasid Shari'ah.

## 5.0 Conclusion

The purpose of this study is to highlight why we need to have a comprehensive Shari'ah governance framework for ICM. The importance of the roles of corporate governance players has been recognized from the conventional as well as Islamic perspectives. Conventional business world, many countries and international organizations have introduced and gradually amended to meet the needs of the current corporate governance issues. In the case of Islamic Shari'ah corporate governance, its source of ruling is originated and based on the Islamic teaching. Islamic accountability should be always in the heart of corporate players and their decisions should be focused not only on the shareholders but also for the other stakeholders within the framework of Shari'ah. It has been highlighted that in order to make sure that the whole activities of Islamic finance industry to be Shari'ah compliant, it should be led by the Shari'ah board members with the support of the respective regulators, top management, employees and all the parties involved directly with the industry.

ICM is facing the challenges of Shari'ah governance issues such as Shari'ah non-compliant risk, independence, conflict of interests and competency. Moreover, this sector is the backbone of the Islamic finance industry and so far, there is no comprehensive Shari'ah governance framework specifically to ICM in Malaysia. In light of the challenges faced ICM players, an important angle need to be addressed is the Shari'ah corporate governance framework. We believe that introducing Shari'ah corporate governance will be able to overcome or at least to mitigate the challenges faced by the ICM players. It is important for us to be aware that good Shari'ah and conventional corporate governance has a significant influence on the development of the ICM. The function is to enable monitoring the overall performance of corporations including the financial performance and Shari'ah compliance.

It is expected that by introducing comprehensive Shari'ah corporate governance in ICM will enhance the confidence of the investors and stability of the industry. Consequently, it will boost this market and economy as a whole. Since Islam as a comprehensive religion, it covers not only religious activities but also business activities and it is betterment of all the human being. Thus, by implementing Shari'ah based corporate governance framework for ICM can grant fairness and justice to all affected parties. It is because Islam promotes justice and transparency and these concepts will encourage ICM players to take care of rights of investors, stakeholders, observe the independence and responsibilities of the Shari'ah board members and management and provide more effective disclosures and Shari'ah auditing. This will eventually improve the operational performances of corporations and the relationships with stakeholders and ultimately attracting more participation of investors.

This paper just highlights why we need Shari'ah corporate governance for ICM and it is hoped that this is the interests of regulators, Shari'ah advisors, industrial players, investors, researchers and public. Since this is an initial attempt to highlight its need, any survey has not been conducted to get the feedback from the ICM players. This limitation can be overcome in the future and it is believed that the findings will be fruitful to the industry.

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