



**RESEARCH IN CORPORATE AND  
*SHARI'AH* GOVERNANCE IN THE  
MUSLIM WORLD**



# **RESEARCH IN CORPORATE AND *SHARI'AH* GOVERNANCE IN THE MUSLIM WORLD: THEORY AND PRACTICE**

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# Preface

Governance issues are of particular concern to Islamic financial institutions as it is crucial that they have appropriate governance structures to assure their clients and other stakeholders that their operations are *shari'ah* compliant. In this context the present study is a welcome addition to the growing literature on *shari'ah* governance, indeed it is the most comprehensive study to date, covering both structural and modelling issues, as well as presenting interesting country studies of *shari'ah* governance in Malaysia, Indonesia, Saudi Arabia, Oman, Bangladesh, Pakistan and Iran. These experiences are especially valuable as they provide a comparative perspective on the implementation of the best practices in Islamic corporate governance.

The relationship between the *shari'ah* board and the board of directors of Islamic financial institutions is a key issue, and much has been learnt from working practices in this area during the last four decades. Practical matters covered include policies for the appointment and retention of *shari'ah* board members. Although this was originally dealt within an informal manner, countries such as Malaysia have introduced detailed legislation to ensure that the best practices have legal foundations. Islamic law, of course, provides a framework for corporate and *shari'ah* governance, but as litigation involving Islamic financial institutions is dealt with under national law, it is helpful if law makers address the challenges that arise in applying commercial law to Islamic financial institutions. The book should be an essential reading for *shari'ah* scholars and those working for law firms dealing with Islamic financial institutions.

A whole part of the work deals with corporate governance from an Islamic audit and accounting perspective. The six chapters covering financial reporting standards for Islamic banks, *takaful* providers and other Islamic financial institutions are of particular value. There is a growing literature on Islamic accounting and auditing but this study, for the first time, has been focussed on corporate governance. Comprehensive financial reporting and detailed data analysis are crucial to ensure that Islamic financial institutions are sound with appropriate transparency for the benefit of shareholders and clients. As a matter of good practice, it is suggested that senior management remuneration should be in the public domain. Voluntary disclosure should be encouraged as a moral imperative and where provision for compulsory disclosure is absent because of inadequate commercial legal provisions.

A major strength of the book is that theory and practice are brought together. Questions that arise include whether Islamic corporate governance

is driven by Islamic teaching, or rather if good practice is evidence based. In other words, there is a debate over whether the approach should be deductive, drawing on Islamic scholarship or inductive, by studying the behaviour of Islamic financial institutions. In reality, the two approaches are not exclusive; indeed, it can be argued they complement each other. The merit of this book is that the approach is multifaceted, with a comprehensive treatment of Islamic corporate governance issues.

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