



Corporate Governance and Leadership from an Islamic Perspective

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Abstract

The focus on the study of management so far has been mainly on two elements- work (production) and workers' welfare. Hence the management as well as leadership grid has evolved over years based on these two. Experts did not spare a thought that human is also a spiritual being. Western institutions very recently realized a missing element of spirituality from literature on management. Thus in today's governance, a good corporate leadership seems to be in short supply due to the lack of spirited executives. The leadership development faces two ways of tackling today's corporate governance problem. First, one can do more of the same. Second, one can try something different. The Islamic perspective to governance and leadership is interesting not because it is new, but because it worked in the past. This paper intends to rediscover this missing spiritual heritage while presenting it within the framework of up to date knowledge on management, leadership and corporate governance. In this paper I conclude therefore to try to demonstrate that Islamic leadership is possible for all. This is equally good, especially Muslims academic and management practitioners including for non-Muslims alike.

Keywords: Corporate Governance, Leadership

1. Introduction

The contemporary leadership theories and governance model developed elsewhere seems to be not working especially in a contemporary Muslim world. Many places a change is taking place. A few Muslim majority countries are successfully making the transition to being modern and highly industrialized societies based on the values from past civilizations of their own backyards. How can we seek to sustain real Islamic values in a world of rapid and traumatic changes without holding up the modernizations and development of contemporary Muslim managed organizations that needs to be investigated? This is an important question as an academic

and management scholars we are asked to address in the modern time.

Hence, the governing of an ideal Muslim society should be based on the Islamic worldview. To bear responsibility not only for the socio-economic welfare of the Muslims, but also for that of the non-Muslims is an intrinsic part of our civilization that doesn't allow the blind pursuit of conventionally pure economic pursuit of 'profit maximization'. Alternative vision of Muslim managed organization could be '*Seeking Rizq Enlargement*' for pursuing *Falah fidunya wal akhirah* encompassing;

i) a dynamic dimension (strive to thrive); ii) a universal dimension (to attain '*Falah*', implying that the endeavors of one's entire socio-economic life is considered), furthering spiritual inputs; iii) an ethical dimension (to be righteous, in intentions and deeds, to be blessed); and lastly iv) a continuity dimension (the fruits of '*Falah*' is enjoyed both in the worldly life and most importantly, in the Hereafter).

Any corporate governance and leadership theory, once developed accordingly is hoped to fully capture organizational performance today while not undermining spiritual belief. According to [1],

such workplace spiritual excellence would lead to better worldview and continuous improvement that are guided by commendable Islamic values beyond the conventional leadership theories.

Thus the aim of establishing any enterprise to practice governance and leadership today from Islamic perspective should be guided by the following *objectives* of this study? Thus three most important objectives of present study are;

- To impart knowledge of management from integrated approach;
- To enrich the organizational theories from new paradigm of research and publications; and
- To apply these in today's management practice loaded with spiritual and ethical values.

2. The Environment and Literature

In today's highly competitive environment, organizations are constantly looking for new ways to maximize employees' work efforts. An organization's success increasingly depends on the knowledge, skills and abilities of employees, particularly when the employees help establish a set of core Islamic competencies that can distinguish a Muslim managed organization from its conventional counterpart or competitors. Mutual trust between bosses and subordinates, on the relationship between organizational commitment, organizational justice, leadership style and organizational citizenship behavior also covered. Lastly, the relationship between perceived organizational politics and organizational citizenship behavior is positive and statistically significant. In sum, of the hypotheses tested, only four were supported by the survey data. Key implications of the survey findings for both theory and practice are discussed, potential limitations are specified, and directions for future research are suggested [2] Another study undertaken by [3] 'The Prophetic

Leadership Model' depends heavily on the *shura*. The *shura* is a consultative process that allows leaders to make collective decisions but also builds trust, commitment and cooperation. On the methodology of this study, author relies a lot on a comprehensive literature review. However, this study summarizes five years of empirical studies in the area of building spiritual capital. This data is shared to illustrate the point that organizations can develop the leadership competencies to make the Prophetic Leadership Model a reality. Another author [4] also argues that the principle of *tawheed* effectively leads humans to look into the concepts of human, universe, and religion from the divine perspective. This belief of oneness of source of power, in turn, stresses the sole authority on the concepts of *amanah* (trust), delegated authority of *khalifah* (vicegerent), responsibility of *ihtisab* (dual accountability in this world and hereafter), and bowing before Him alone in form of *'ibadah* (worship). CEOs, COOs and others observe sacred values such as *siddiq* (truthfulness), *ikhlas* (sincerity), *'adalah* (justice), *ukhuwwah* (brotherhood), and *mujahadah* (sacrifices and determination). Any BOD members or top management, decision maker on behalf of stakeholders and auditors - imbued with such values are considered by *Allah* (s.w.t) as the highest level of men, mindful of *Allah's* commandments in all their actions.

2.1. Insert-Diagram-1

The issue of context in communication affects "cultural differences in matters concerning the language of time, of space, of material possessions, of friendship patterns and of agreements" [5]. Mostly open societies for example Northern Europe and Scandinavian countries including United States of America believe in open and direct communication, unlike Asian and Latin American people that belong to high context society and culture who practice opposite.

[6] also explained initially the four but later five variables (Four dimensions (later 5): Power distance; Individualism/ Collectivism; Uncertainty avoidance (Risk); Masculinity/Femininity and Long Term Orientation – (added later) which have influence the management practices.

2.2. Insert-Diagram-2

In this diagram-2 above, Malaysian who are majority Muslims stand alone as an example and reflection of high power distance and high on collectivism. The combination of these two variables has shaped the Malaysian management styles [7]. Thus the contrast in management practices is nothing new but natural way forward.

2.3. Preservance and Way Forward

In a Muslim society, whose corporate governance should be based on the Islamic worldview, the Muslim managers being part of it should in their daily be governed by the different set of corporate ethical values.

These following short paragraphs, therefore, highlight a number of important factors that Muslim managers as well as other professionals should be aware of in compliance with managing their corporate affairs, such as:

- The importance of understanding their existence and business vision in corporate life in terms of the Islamic Worldview.
- The importance of understanding the comprehensive meaning of *Tawheed* and *Ibadat*, and avoid allowing themselves to become caught by the secular views and this especially in regards to management from a purely western perspective.
- Learn to appreciate the evolution of the *Shariah* and its effects on all man's actions.

- The importance of a systematic approach in handling problematic issues of *Fiqh* (by referring to a competent authority), and

- Learn to appreciate the complexity of the many questions related to *muamalat* (transactions) and which involve short-term as well as long-term considerations. In most cases, there are no single or clear-cut answers to such questions and some wisdom must be applied in the choice of solutions to these mundane life problems.

Hence, Muslim managers and business policy makers are called upon to confront the problems of mismanagement in the utilization of God given resources, as experienced by the world today. Muslims all over the world regarded revealed knowledge (alQuran) combined with Prophetic traditions (Hadith) as main sources of shaping their behaviour. However differences due to sub-cultures and local traditions (mores and folkways) shape different behaviour and likely to impact the local management practices.

According to revealed sources of knowledge and Sunnah, in its simplest form, Islam is a comprehensive way of life that enables us to perform our work and *i'badat*. Allah (SWT) says:

"I only created the Jinn and mankind for my *ibadat*" (Al-Quran 51:57)

2.4. Implications for Human Governance

The four components of managing human beings are as drive (an aroused state due to physiological need), instincts and innate biological determinants of behavior, commitment (*ikhlaas*); and incentives (external stimuli). These are drawn from the teachings of AlQuran as explained below;

1. *Need Basis*: A Muslim looks at the wages, salary and other material benefits as a means to enable him/her feed, clothe, and house himself/herself and family so that him/her can devote his/her energy to the work. He/she does not look at them as a just return for his/her labor. His/her labor is worship and only Allah can recompense for it.
2. Instincts and innate biological determinants of behavior /Behavioral theories:
 - a) Humans have freedom to choice in the behavior/ work that they do (Al-Quran 4:66). The Quran emphasizes the importance of work (6:135 & 67:15). There is reward for any behavior (Al-Quran 2:85). They can be good, *amal hasan* or bad, *amal sayyi*.
 - b) Some people try to deceive to make behavior appear good (Al-Quran 6:108 & 47:14). Bad behavior is condemned and has a bad reward. Good one reflects underlying faith (Al-Quran 38:24 & 103:2-3). It is rewarded in the hereafter (Al-Quran 2:25 & 99:7) and on earth (Al-Quran 16:97 & 24:55).
3. *Commitment, ikhlaas*: was described in the Quran in several verses (2:139 & 98:5). It is expressed in the intention, *Ikhlaas al niyyat*. Work is the consequence of the intention (Al-Bukhari).
4. *Incentives (external stimuli)*: *Jannat* is a positive motivator. *Jahannam* is a negative one. Reward for good work behavior is *Jannat* otherwise it is rewarded in the form of *Jahannam*. Spiritually people are classified as those who have: *Nafs Ammarah, Nafs awwamah and Nafs Mutmainnah*.

2.5. Implications for Leadership

Hadith gave us examples from the leadership qualities /traits exemplified by Prophet Muhammad (PBH) and his rightful four companions who were exemplary Islamic leaders by consensus, some scholars therefore have listed the following important traits of a leader from Islamic perspective: a) Patience (*Sabr*): one's endurance in the face of pain and suffering; as well as emotional maturity: b) Eloquence (*Fasah*): ability to articulate ideas with

clarity and eloquence: c) Enterprise (*Iqdam*): take initiative, and determination to carry out the mission; and

d) Leniency (*Lin*): ineffective leadership if they are not balanced with kindness, courtesy, and leniency.

Leadership in Islam is a trust (*amanah*). It is a psychological contract between a leader and his followers that he will try his best to guide them, to protect them and to treat them fairly and with justice. The focus of leadership in Islam is on doing good. According to Islam, every person is the “shepherd” of a flock, and occupies a position of leadership. (Al-Quran narrates the issue of spiritual leadership of Israelites). Moral Bases of Leadership in Islam is rooted in belief and willing submission to the Creator, God. It centers on serving Him. To serve God, a Muslim leader is to act in accordance with the injunctions of God (Allah) and His Prophet (*saw*), and must develop a strong Islamic moral character. Hence this moral character will be reflected by his increasingly strong belief in God as he progresses through four stages of spiritual development: *islam, iman, taqwa and ihsan*.

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3. Conclusion

The main challenge here is to integrate leadership and management knowledge for better corporate governance from the Islamic perspective. This caters practicing managers’ need in ways that can make them better prepared for the challenges of managing globally or at least in the Muslim countries. Muslim academics of our age and time must rise to the occasion and undertake studies for management knowledge enhancement to guide managerial activities of an enterprise in Muslim countries. Important activities for such an entity and undertakings must be as: to develop a teaching curriculum based on the integration of management knowledge; to develop spirited executive highly loaded with “*Revelation and Reason*”; to conduct research and develop case studies written from the Islamic perspectives; and finally to conduct workshops and training of practitioners who must be beacon of light for the industries and corporate world.