Chapter 29

Corporate Governance and Performance of Shariah-Compliant Companies

Mustafa Bin Mohd Hanefah
Universiti Sains Islam Malaysia, Malaysia

Muhammad Iqmal Hisham Kamaruddin
Universiti Sains Islam Malaysia, Malaysia

Rosnia Masruki
https://orcid.org/0000-0003-1087-4185
Universiti Sains Islam Malaysia, Malaysia

Mohd Marzuki Ismail
Universiti Sains Islam Malaysia, Malaysia

ABSTRACT

This chapter examines the relationship between corporate governance practices and firm performance. The characteristics of the board of Shariah-compliant companies in consumer products counter of Bursa Malaysia were examined against the firm’s performance using data from 77 companies from 2014 to 2016. Based on the result of multiple regression; board size, Muslim chairman, and Muslim director have a weak positive correlation with the performance of the firms. However, directors with Shari’ah background seem to have a negative correlation with the performance of the firms. The findings of the chapter would be very useful to the regulators to improve the Malaysian Code of Corporate Governance (MCCG). The findings also help to fill the gap on scarce literature that study the relationship between the corporate governance practices involving Muslim characteristics and performance.

DOI: 10.4018/978-1-7998-0218-1.ch029
INTRODUCTION

When big companies like Enron and WorldCom in the US respectively collapsed in 2001 and 2002, the term corporate governance garnered the world’s attention. To improve corporate governance practices and regain investor confidence, immense efforts have been done to enhance the efficiency of governance structure in many countries, mostly through the development of corporate governance guidelines. These include the Cadbury, Hampel, and Higgs reports in the UK; the Bosch report in Australia; and the Business Roundtable in the US.

In South East Asia, the 1997-1998 financial crisis was also attributed to weak corporate governance practices. This crisis then prompted governments in the region to improve their governance structure. To restore investor confidence, most South East Asian countries launched their respective code of corporate governance. The Securities Commission of Malaysia’s Malaysian Code of Corporate Governance (MCCG 2017) defines corporate governance as:

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 interests of other stakeholders.

According to this definition, corporate governance acts as a control mechanism in an organization to achieve its targeted goals while at the same time prevent unwanted conflicts. Corporate governance consists of a number of moral principles such as ethical behaviour, accountability, transparency, and sustainability. These principles eventually lead to the establishment of an organization’s long-term value. Basically, proper corporate governance classifies the rights and responsibilities among different stakeholders in an organization. Additionally, it also highlights the rules and procedures of decision-making, risk management, and internal control. Corporate governance is also able to balance the needs among stakeholders.

From Islamic perspective, good governance is not just mechanical but qualitative. Qualitatively, good governance is derived from seven fundamental elements: (i) as-shura (mutual consultation); (ii) khilafah (viceregency); (iii) accountability; (iv) transparency; (v) ‘adala (justice); (vi) equity; and (vii) amar ma’ruf nahi munkar (commanding the good and forbidding the evil; also known as jihad).

Therefore, this chapter examines the relationship between corporate governance practices and firm performance. The sample was companies on the consumer products counter of Bursa Malaysia. Three years’ data (2014 to 2016) were investigated. The characteristics of corporate governance practices from the Islamic perspective, such as board size, Muslim chairman, Muslim directors, and director with Shari’ah background, were studied to determine their relationship with firm performance.

CORPORATE GOVERNANCE FROM ISLAMIC PERSPECTIVE

Currently, there is no solid generic Islamic corporate governance framework, as most studies focused on Shari’ah governance for Islamic financial institutions (Abdullah Saif Alnaseer & Muhammed, 2012). Only few prominent studies such as Lewis (2005), Choudhury and Hoque (2006), and Abu-Tapanjeh (2009) elaborated on a general corporate governance framework from the Islamic perspective.
Related Content

Earnings Quality and Firm Valuation: A “New” Perspective Deriving From the Literature
[www.igi-global.com/chapter/earnings-quality-and-firm-valuation/223671?camid=4v1a](www.igi-global.com/chapter/earnings-quality-and-firm-valuation/223671?camid=4v1a)

CSR's Capability as a Conflict's Resolution to Enhance a Firm's Value in Indonesia
[www.igi-global.com/article/csrs-capability-as-a-conflicts-resolution-to-enhance-a-firms-value-in-indonesia/134863?camid=4v1a](www.igi-global.com/article/csrs-capability-as-a-conflicts-resolution-to-enhance-a-firms-value-in-indonesia/134863?camid=4v1a)

Financial Evaluation of the Greek Port Authorities Operating as GOPC
[www.igi-global.com/article/financial-evaluation-of-the-greek-port-authorities-operating-as-gopc/204428?camid=4v1a](www.igi-global.com/article/financial-evaluation-of-the-greek-port-authorities-operating-as-gopc/204428?camid=4v1a)

The Behavior Intention of Tunisian Banks' Customers on using Internet Banking
[www.igi-global.com/chapter/the-behavior-intention-of-tunisian-banks-customers-on-using-internet-banking/115365?camid=4v1a](www.igi-global.com/chapter/the-behavior-intention-of-tunisian-banks-customers-on-using-internet-banking/115365?camid=4v1a)