



AL-SHAJARAH

JOURNAL OF THE INTERNATIONAL INSTITUTE
OF ISLAMIC THOUGHT AND CIVILIZATION (ISTAC),
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA (IIUM)

SPECIAL ISSUE:
ISLAMIC BANKING AND FINANCE

2015

AL-SHAJARA

Special Issue

Contents

CORPORATE GOVERNANCE FOR ISLAMIC BANKING SUSTAINABILITY AND CAUX ROUND TABLE PRINCIPLES <i>Khaliq Ahmad</i>	1
DISPUTE RESOLUTION MECHANISMS IN THE ISLAMIC FINANCE INDUSTRY IN MALAYSIA: TOWARDS A LEGAL FRAMEWORK <i>Engku Rabiah Adawiah Engku Ali, Umar A. Oseni, Adewale Abideen Adeyemi, Nor Razinah Binti Mohd. Zain</i>	19
REPLICATION OF SHORT SELLING IN ISLAMIC FINANCE <i>Aznan Hasan Sarfaraz Dawar Khan</i>	41
SHARI'AH RISK MANAGEMENT FRAMEWORK FOR ISLAMIC FINANCIAL INSTITUTIONS <i>Rusni Hassan</i>	67
THE APPLICATION OF <i>TANĀZUL</i> AND ITS SHARĪ'AH ISSUES IN EQUITY-BASED <i>ŞUKŪK</i> <i>Azman Mohd Noor, Muhamad Nasir Haron Sri Zuraihan Mohammad</i>	87
THE LEGAL AND BENEFICIAL OWNERSHIP CONUNDRUM IN SOVEREIGN <i>ŞUKŪK</i> STRUCTURING <i>Umar A. Oseni</i>	111
EMBEDDED OPTIONS AND THE ISSUE OF <i>GHARAR</i> : EMPIRICAL EVIDENCE FROM MALAYSIA <i>Razali Haron</i>	149
FOREIGN OWNERSHIP, EFFICIENCY AND SOLVENCY: ANALYSIS OF <i>TAKAFUL</i> FIRMS IN THE GCC REGION <i>Adewale Abideen Adeyemi, Zarinah Hamid, Asafa Adeyinka Dauda</i>	173
ECONOMIC SECURITY REQUIRES MONETARY AND PRICE STABILITY: ANALYSIS OF MALAYSIAN MACROECONOMIC AND CREDIT DATA <i>Adam Abdullah</i>	205
SALE OF GOODS AND SALE OF DEBTS: A COMPARATIVE ANALYSIS <i>Buerhan Saiti and Adam Abdullah</i>	249
ISLAMIC COOPERATIVE: AN ALTERNATIVE TO COMMERCIAL ISLAMIC BANKING <i>Richard Gerald Gonsalves Salina Hj. Kassim</i>	273
NOTES ON CONTRIBUTORS	293

ISI-Thomson Indexed (WoS) under *Arts & Humanities Citation Index, Current Contents/Arts and Humanities* and **Scopus**

ISSN 1394-6870



9 771394 687009

CORPORATE GOVERNANCE FOR ISLAMIC BANKING SUSTAINABILITY AND CAUX ROUND TABLE PRINCIPLES*

Khaliq Ahmad

Abstract

Corporate Governance for Islamic Banking Sustainability and Caux Round Table Principles is an attempt to give a balanced view of both Western and Islamic perspectives. The review of the literature, explanations of the verses of the Qur'an that relate to corporate governance (CG) theories and Islamic perspective to it will enrich the field. This paper takes those traditional theories in literature and interprets them from an Islamic perspective, using more international perspectives especially for the Muslim world. Since failure to make profit alone is not enough reason of defaulting corporate entities rather non-compliance of shari'ah and Islamic ethical guidelines and lack of CSR concern is equally important in defining failure.

Keywords: Islamic banking, corporate, governance, sustainability, Caux Round Table

* I would like to thank Professor Sayyid Ajmal bin Abdul Razak Al -Aidrus for his professional editing of this Special issue on Islamic Banking and Finance.

Introduction

The lack of spirituality leads to governance scandals because of the failure of corporations relying on non-religious-based corporate governance systems as that prevalent in the West. Therefore, the author proposes the integration of the Islamic worldview that encompasses life and the Hereafter. Islam is a religion of peace, notwithstanding the negativity espoused by Western mainstream media that prefers to regard it as retrograde, intolerant and inflexible. We are confronted with the contemporary reality involving a secularized belief that deems a non-religious value-based governance, as may typically be found in modern scholarship, that encapsulates a neutral, value-free and stand-alone discipline. By suggesting the principles, concepts and values derived from divine revelation, we can see how this is highly relevant to both system of governance and humans who are entrusted to manage the world. We introduce the notion of pious and God-fearing individuals who have framed the correct worldview, which is dual in nature, covering both this temporal world and the Hereafter.

The author also argues that the principle of *tawheed* effectively leads humans to look into the concepts of human beings the universe, and religion from the divine perspective. This belief of the oneness of the 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 the bowing before Him alone in form of *'ibadah* (worship). Upholding, these values in human life would induce managers, CEOs, COOs and others to constantly observe sacred values such as *siddiq* (truthfulness), *ikhlas* (sincerity), *'adalah* (justice), *ukhuwwah* (brotherhood), and *mujahadah* (sacrifices and determination). Any BOD or top management members, decision makers, on behalf of stakeholders and auditors, imbued with such values, are considered by *Allah* (s.w.t) as the highest level of men, which literally refers to *insan muttaqun* (pious individuals), who are mindful of *Allah's* commandments in all their actions. This forms the internal intensity of God-fearing individuals (*insan muttaqun*), which considered accountability in the life Hereafter as the driving force for potentially scandalous-free environment.

The above human model full of God-consciousness within a governance framework infused with the same identified Islamic principles, concepts, and values will make a difference. It includes several components currently de-emphasized by the “modern” governance thought and system such as the *Shar’iah* supervisory board, the internal *Shari’ah* audit, *shuratic* decision-making system, and the *hisba*.

The relevance and effectiveness of the above values’ based governance initiatives are, however, conditional upon several factors, giving rise to certain limitations.

Firstly, the identified Islamic principle, concepts, and divine values are required to be accepted, embraced, and subsequently internalized.

Secondly, these are not the complete set of values. It has not covered all the values available in abundance in the *Qur’an*; thus, it is far from providing a complete code of Islamic ethics. The identified values above are sufficient (at least for a start) in developing a God-fearing and conscientious corporate managers.

Thirdly, due to the nature of the proposed values and corporate structures, it is most suitable to be implemented by countries with a majority Muslim population first. Corporate organizations owned or managed by Muslims operating in non-Muslim majority countries may be another option in time.

Governance from an Islamic Perspective

Allah (s.w.t.) has entrusted His *khalifah* to manage the affairs of this world. Accordingly, from the Qur’anic perspective, governance is an essential part of God’s trust or *amānah* to mankind. The primary objective of this *amānah* is to ensure the well-being of all creations, especially human beings. The governance must guarantee the rights of every stakeholder under its authority. However, the responsibility of governance does not stop here; it also dictates that we require us to take care of the physical environment. Since all management policies are geared toward the stakeholder’s interest, the decision-makers must also be considerate to the general well-being of future generations for sustainable development. Thus, nobody is above the natural law (*fītrah*). Here one must note that the Qur’an is not a book

of law, but a guide for the establishment of peace on earth and a civilized society. The Qur'an fundamentally is a book of guidance (*hidayah*) in various areas of individual and collective life, including governance which is essential for establishing peace and justice in society. It can ensure the current and future well-being of the *ummah* (human society). It lays down principles and sometimes injunctions in this regard. This is ensured through the *maqasid al-shariah*, involving a process referred to as the *sharī'ah*. The purpose of the *sharī'ah* is to ensure justice and balance between the demands of the employee and that of the whole corporate citizenry.

The *sharī'ah* is also employed to maintain a balance between the needs of society and the demands of the sustainable future environment. Man as *khalifah* on earth has been given the trust and the freedom to understand, interpret and translate *Allah's* (s.w.t.) guidance into practice. Islamic civilizations developed law or *fiqh* (human understanding of *sharī'ah* principles) and *qānūn* (codification of the understanding of the *sharī'ah* principles into a form of law) in order to achieve this noble goal. In general the *sharī'ah* as a very dynamic process has been very accommodative and flexible in governing mundane life, rather being very rigid to make adherents' of faith life miserable. Islam is *ad-deen* of *fitrah*.

It is interesting to note that Muslim scholars' understanding of Qur'anic guidance is good governance. These scholars have been very cognisant of changes in time and circumstances as *i'llah* is a pre-condition of any *ahakam*. Originally, the political aspects of the Qur'an were propagated part of the '*aqīdah* or faith of the Shiah Muslims. Discussion on the subject of '*aqīdah* mainly revolved around the concept of *imāmah* as part of good governance. But al-Shāfi'ī interpreted verse *Al-Quran* 4: 59 to mean that decisions and policies on governance to mean to obey those in authority did not necessarily apply to the rulers of his time since they had gone astray. Due to the civil disorder and uncertainty in the government at *darul khilafa* in Baghdad during his time created an example of bad governance. Al-Shāfi'ī and other scholars went into self-exile in Egypt fearing persecution by tyrant rulers. They differentiated themselves from the *umarā'* rulers. Gradually Muslim jurists developed the methodology of *ijtihad* in the interpretation of the

Quran as *Allah's* (s.w.t.) guidance. In the 12th century al-Māwardi wrote *al-ahkām al-sultāniyyah* (i.e., principles of governance). This described a systematic approach to management and governance that explained the role of various institutions in an Islamic government. In the 13th century, al-Juwayni developed a new science called *maqāsid al-sharī'ah* or objectives of the *sharī'ah*. The governance model of the rightly-guided caliphs and institutions of governance became very weak under the influence of certain autocratic sultans. The governance lost the spirit of the Qur'anic guidance. It developed mere formalism as Al-Maududi described it as *malukiat* rather than *khilafat*. The focus of works on *maqāsid al-sharī'ah* became more comprehensive as it expanded good governance to incorporate the welfare of the *ummah*. This led to the fall of Baghdad at the hands of the Mongols in 1258. Ibn Taymiyah gave a whole new interpretation of the two verses above (Al-Quran 4: 58 and 59). Imam Ibn Taymiyah redefined his understanding of good governance under the principles of *al-siyāsah al-shar'īyyah*.

The concept of *maslahah* or public interest was developed, such that Qur'anic guidance was reinterpreted and implemented to allow for public interest in good governance. All these developments occurred through the understanding of good governance under new circumstances. In Islam God is the sovereign power; man as vicegerent of *Allah* (s.w.t.) on earth is absolutely free to choose because he is solely capable of understanding God's will on earth for the sustainability of the human race.

Resources are a Godly sustenance which are important elements besides the responsibility of managing the relationship of man with God and with their fellow-men, as we have highlighted earlier. The *sharī'ah* encourages positive utilization of available resources. There is no such thing as scarce resources. That resources come from *Allah* (s.w.t.) is against the current capitalist belief that lead to the argument material goods are scarce and limited. The Qur'an suggests that there are plenty of resources for every being in God's creation and there is a potential for the discovery of more assets. Nevertheless, *Allah* (s.w.t) dislikes extravagances. As those who are extravagant are brethren of *Satan*. This process of growth can be realized only by the use of endlessly increasing human

knowledge. This is one of the ingredients of man's composition that contributes to human beings the best of all creatures. The Qur'an emphasizes the fair and just distribution of resources as against the concentration of wealth in a few hands. The legitimacy of private ownership is equally an Islamic concept, but paying *zakah* is mandatory (*wajib*). Good governance is supposed to utilize resources with a sense of socio-moral responsibility as prescribed by the objectives of the *shari'ah*. Accordingly, God strongly warns the *ummarā'* against bad governance and the abuse of power in utilizing God-given resources. The Qur'anic idea of good governance also demands the assurance of genuine access of every citizen to resources. The idea of *amānah* demands that if a person is appointed to a certain public position, he should not be carried away by *nafs ammarah* and the temptations to consume resources for self-gratification or for the benefit of his friends and relations. This is deemed as nepotism in terms of modern governance.

Looking after the general interest and welfare of the *ummah* at large is perhaps the most important function of good governance. The Qur'an introduces the *zakāh* as obligatory payment and *sadaqah* as a voluntary system and one of the fundamental pillars for the re-distribution of wealth in a Muslim society. As such, responsible good governance necessitates a fair and just administration of the above system. To ensure public welfare as a part of the *amānah* or trust discussed earlier is of the utmost important in the interest of sustainable development of Islamic banking and financial institutions in this twenty first century.

Value-Based Governance at Caux Round Table

The Caux Round Table (CRT) group is a Western organization that is also interested in value-based corporate governance. The CRT believes that the world business community should play an important role in improving economic and social conditions for modern day humanity. "As a statement of aspirations, The CRT Principles aim to express a world standard against which business behaviour can be measured"¹. The group seeks to begin a process that identifies shared

¹ "Principles for Responsible Business," Caux Round Table, 2010, available at:

values, reconcile differing opinions of such universal values, and develops a shared perspective on business behavior acceptable to and honored by the public at large. These principles are rooted in two basic ethical ideals: *kyosei* and human dignity.

The Japanese concept of *kyosei* means living and working together for the common good enabling cooperation and mutual prosperity. This is to ensure coexistence with healthy and fair competition. “Human dignity” refers to the sacredness or value of each person as an end, not simply as a means to the fulfillment of the purposes of others, including a democratic system of majority prescription. The “General Principles” seeks to clarify the spirit of *kyosei* and “human dignity”. The specific Stakeholder Principles prescribes and is concerned with practical application. In its language and form, the declaration owes a substantial debt to “The Minnesota Principles” a statement of business behavior developed by the Minnesota Center for Corporate Responsibility in the United States. The Center hosted and chaired the drafting committee, which included Japanese, European, and United States representatives. Subsequently, the group also approached Muslim scholars to assess these values, involving Quranic prescriptions, and IIUM was honored to be invited to provide Islamic inputs into CRT.

Business behavior can affect relationships among nations and the prosperity and well-being of the human race. Trade and business is often the first contact between nations. It is the traditional way in which it causes social and economic changes and has a significant impact on the level of fear or confidence felt by nations. Members of the Caux Round Table place their first emphasis on putting one's own house in order by seeking to establish what is right rather than who is right or wrong. The CRT’s corporate governance model is based on seven principles, referred to as “Principles for Responsible Business”².

<http://www.cauxroundtable.org/index.cfm?&menuid=8>

² Ibid.

Principle-1: *Respect Stakeholders beyond Shareholders*

The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal. Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.

Principle-2: *Contribute to Economic, Social, and Environmental Development*

Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries in which they operate. Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon innovation in technology, production methods, marketing and communications.

Principle-3: *Build Trust by Going Beyond the Letter of Law*

While accepting the legitimacy of trade secrets, businesses should recognize that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.

Principle-4: *Respect for Rules and Conventions*

To avoid trade frictions and to promote freer trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognize that some behavior, although technically legal, may still have adverse consequences.

Principle-5: *Support Responsible Globalization*

Businesses should support the multilateral trade systems of the GATT/World Trade Organization and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalization of trade and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.

Principle-6: *Respect the Environment*

A business should protect and, where possible, improve the environment, promote sustainable development and prevent the wasteful use of natural resources.

Principle-7: *Avoid Illicit Activities*

A business should not participate in or condone bribery, money laundering or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug trafficking or other organized crime.

Governance from the Islamic Perspective *Vis-a-Vis* the Caux Round Table

The Qur’anic excerpts on governance involve universal values that coincide with the Caux Round Table (“CRT”) Seven Principles for Business (updated in 2010) and Seven Principles for Governance³.

³ “Principles for Governments,” Caux Round Table, 2002, available at:

These principles originally were drawn from three core religious based values: *kyosei* from Japan, human dignity from Roman Catholic teachings, and stewardship from both Protestant Christian and older Roman republican traditions. The CRT Principles for Governance eventually recognize that power is a human capacity transcended elsewhere that encompasses individual needs and desires. Power implicates others; power binds the human being through “relationship management” to that which is outside and beyond one person’s destiny; power instantiates the individual’s relationship with reality and one’s natural disposition (*fitrah*), going beyond the effects of dreams and thoughts into the lifeworld, including the world view of Islam.

Accordingly, the CRT Principles for Governance states as a fundamental principle that public power is held as a trust for the common good. This fundamental principle expressly accepts and supports the Qur’anic thesis that humans hold their powers and abilities as an *amānah* from God.

Furthermore, the CRT Principles elaborate that power and politics brings responsibility; power is a necessary moral circumstance in that it binds the actions of one to the welfare of others. Therefore, the power given by public office is held in trust for the benefit of the community and its citizenries. Any officials thereof are custodians only of the powers they hold; they have no personal entitlement to office or the prerogatives thereof. Holders of public office (*umarā’*) bear public accountability (*hisbah*) for their conduct while in office; they are public representative and subject to removal for malfeasance, misfeasance or abuse of office. The burden of providing proof lies on the office holder that no malfeasance, misfeasance or abuse of office has happened or will occur. The management of corporate entities involves servant leadership as an agent of higher ends; otherwise the implication is insubordination to society. Public power is to be exercised within a framework of moral and spiritual responsibility for the welfare of others (service to mankind). Any form of poor governance that abuses this trust

(*amanah*) shall lose their authority and may be removed from office in an ordinarily manner.

The CRT Principles for Governance then set forth some subsidiary principles designed to ensure that public power is indeed exercised as a trust for the common good as follows:

Firstly, a process of discourse should guide the application of public power. This first subsidiary principle combines in executing the Qur’anic recommendation of reliance on *ijtihad* through a process of *shura*. The process of discourse to set the ethical bounds on the use of public power can be used from the most subordinate jurisdictions up to the institutions of sovereign responsibility and even within multi-national organizations. The discourse on ethics guide the application of public power, however, allocated by constitutions, referendums or laws, including *shari’ah* laws, shall rest its legitimacy in communicative action and discourse among autonomous moral agents to be served by corporate governance.

Secondly, a free and open discourse, embracing independent media, shall not be curtailed except to protect legitimate expectations of personal privacy, sustain the confidentiality needed for the proper separation of powers or for the most dire of reasons relating to national security.

Thirdly, another related principle seeks to minimize abuse of power for personal reasons, “Public servants shall refrain from abuse of office and corruption, and shall demonstrate high levels of personal integrity” and the principle referring to “Transparency of governance ensures accountability”. These particular CRT principles directly echo or more forcefully restate Qur’anic teachings that warn against the abuse of one’s *amānah* (which would result in degradation of the position of *khalīfah* into a less divinely inspired status), against corruption, against falsehoods and deceit, and requiring acceptance of personal responsibility for one’s actions.

Other CRT Principles of Governance support the Qur’anic call for ‘Justice’, which holds simply that “Justice shall be provided” (no.6) but here Justice is defined more procedurally as, “The civic order and its instrumentalities shall be impartial among citizens without regard to condition, origin, sex or other fundamental, inherent attributes. Yet the civic order shall distinguish among

citizens according to merit and desert where rights, benefits or privileges are best allocated according to effort and achievement, rather than as birth rights”. The civic order shall provide speedy, impartial and fair redress of grievances against the state is unnecessary intervention in trade and transactions, its instruments, other forms of in-genuine capital control and free movement of goods and services for the benefit of humanity. The Rule of Law shall be honored and sustained, supported by honest and impartial tribunals and legislative checks and balances. Principle two speaks to the need of the collective benefits to serve and enhance the capacities of individuals for being able to serve as *khalīfah* as, “Public power constitutes a civic order for the safety and common good of its members. The civic order, as a moral order, protects and promotes the integrity, dignity, and self-respect of its members in their capacity as citizens and, therefore, avoids all measures, oppressive and otherwise, whose tendency is to transform the citizen into a subject”. Governance shall therefore protect, give legitimacy to or restore all those principles and institutions which sustain the moral integrity, self-respect, and civic identity of the individual citizen and which serve to inhibit the processes of civic estrangement, dissolution of the civic bond, and civic dis-aggregation. This protects the citizen’s capacity to contribute to the well being of the civic order itself.

Additionally, principles four and six⁴ precisely speak to the standard that individuals deserve personal empowerment under a just governance so that each might in his or her own way grow in capacity, understanding and determination to develop in the best manner. Therefore, civic order, through its instrumentalities, shall provide for the security of life, liberty and property for its citizens in order to insure domestic tranquility. The governance shall nurture and support all those social institutions most conducive to free self-development and self-regard of the individual citizen as human dignity is assured. Public authority shall seek to avoid or to ameliorate conditions of life and work which deprive the individual citizen of dignity and self-regard. This is not to permitting to powerful citizens specially holders of public office, the exercise of power to grab all opportunities of exploitation of the weak.

⁴ Ibid.

Therefore corporate entities today have a custodial responsibility to manage and conserve the material and other resources that sustain the present and future well-being of the community. Islamic form of governance, therefore, can implement the CRT Principles for Governance to better align their actions with Qur'anic guidance. The CRT Principles for Governance were based upon some respectful, but not yet extensive, understanding of the Qur'an. Since they prove to be so very much in harmony with Qur'anic guidance for humanity, it would be only prudent to recommend their use for those who seek to serve through public office, both within the *ummah* of the Muslim faithful and *vis-à-vis* the wider *ummah* of humanity and mankind. Such actions by Muslim corporate leaders, including the Islamic banking and financial institutions will create better understanding of such types of good governance among non-Muslims. This will also appeal to public acceptance of Islamic banking and finance services beyond the Muslim market segments alone. Once known in the financial market, it will be a powerful tool to emerge as an alternative financial system against the conventional banking based on the *ribawi* (interest) system known to be exploitative and parasitical towards all of society. This according to the Islamic belief system warrants the wrath of *Allah* (s.w.t.).

Sustainability of Human Talents and Islamic Finance Services

The availability of human capital or the rightly used term *talents* will be necessary for future prospects of Islamic banking services. Recruiting, nurturing and creating spiritual self who are individuals free from greed and influences of *nafs ammarah* will be the associated with the sustainability of Islamic banking and financial services. Therefore the following points and paragraphs that were discussed at length in a workshop organized at Kuala Lumpur in May, 2015 will go a long way to bridge this talents gap.

This would be a cyclical approach. Recruiting the right person (Mr. Right) to transform to Mr. Q (Mr. Quality) based on training and development that is invested in human capital. Mr Q must develop into Mr. C (Mr. Contribution) who sincerely contributes selflessly to the growth of the Islamic banking sector for the sake of

sustainability. However, the loss of talents or human capital flight also needs attention. Otherwise the temptation to leave and join the competing institutions, even in the non-Muslim majority countries will create the need for Mr. L (Mr. Loyal). Therefore, a proper remuneration scheme and post-retirement benefits are inevitable.

A) Recruiting the Next Generation of Islamic Finance Experts

Whether incumbent person in the Islamic banking and finance industry really subscribes or not to the scope of broad vision and is long enough to anticipate career in the cross-sectoral/functional needs of an evolving global economy need to be verified. This must be assured at the recruitment and selection stage.

The global financial crisis also had an impact on recruiting Islamic finance professionals. Is it clear today whether it increased or decreased the dependence of people on the conventional banking experience? Hence it may have assisted in making it more difficult to enter the Islamic banking sector without any conventional banking experience, where necessary skills had not been taught to graduating applicants.

How Islamic finance attract and retain younger professionals who have grown up with Islamic finance should be an important issue for recruitment policies. One should expect more than just the baseline of *Shariah* compliance such that knowledge in marketing, accounting and ICT skills is a must.

Islamic banks and other financial institutions must provide new graduates and young professionals with a career path that does not necessarily involve experience in a conventional bank.

B) Skill Needs and Developing Tomorrow's Islamic Finance Leaders

Fresh graduates would hardly be productive from the first day after their recruitment. Training and development is key to improve quality of these potential talents. Thus training needs and necessary skills required by the industry of its' new hires must be analyzed. What skills does the industry require of its newly hired employees? What it requires in terms of conventional financial backgrounds to ensure they understand not just the products, but the larger societal

goals inherent in the vision of Islamic finance is of fundamental importance to Islamize their mindset as discussed in the previous section of this paper.

Islamic financial institutions must have a culture of innovation instead of replication when it hires from the conventional industry and this is a big policy issue in the financial sector. What are the key skills missing from graduates of Islamic finance graduate degree programs that can only be filled by tailored training programs, which must be supported by an appropriate training budget?

Dedicated Islamic finance focused on educational institutions and degree programs, such as those provided by the IIUM Institute of Islamic Banking and Finance (IiBF) provide the skills and expertise that are assumed to be missing from graduates and are developed by industry and academia in a smart partnership.

Does the Islamic finance industry have a leadership vacuum in terms of strong visionaries who can drive the development of the industry forward? The bigger question is who should be tasked with developing this? What kind of leaders do Islamic financial institutions require in order to shape a more inclusive and broadly appealing industry, so the that cross sectional market agenda that is acceptable can be fulfilled?

Islamic finance focused educational institutions must think that their programs level the playing field with more reputable and well-established B-schools such as Harvard, IMD, MIT Sloan Business School and others in the West. Is it through partnerships, accreditation or providing a more focused niche that is underserved? Hence more fundamental research is required to answer the question. This requires funding, and industries must keep aside a portion of their profit to realize this noble purpose.

C) Supporting Islamic Finance Knowledge Development and Education Ecosystem

The general feeling is that industries are reluctant to share the fortunes they have accrued with the knowledge developed by scholars and researchers. For the benefit of the industry, it should support fundamental theoretical research within academia without sacrificing the credibility and independence of the intellectual

outputs. Beside theoretical research should address what kind of research needs to be produced by academia for the practical benefit of the industry. There is a disconnect between what is being produced and what should be produced, as perceived by bankers. How can this gap be narrowed, has to be an agenda for industry and academia to develop at regular meetings and forums. Adjunct professorial lectures by corporate leaders must be frequently organized. Islamic financial institutions may benefit from their own participation in the development of basic research. However, their short-term performance goals limiting their participation to academic research is an unfortunate phenomenon today.

Many types of academic collaborations, theoretical and practical / financial numeracy / marketing / accounting and ICT skills must be discussed between academics, private sector researchers and *Shariah* scholars that would be most beneficial to the industry's growth in the long run because many basic research outputs show the relevance after a generation gap. The course synopses/teaching and learning topics of academic interest developed by training institutions focused on delivering expertise over the next 5 years is being planned by ICIFE (International Council of Islamic Finance Educators), a leading authority in Islamic banking and finance (www.icife.net).

Conclusion

By the same correlation between the CRT Principles for corporate governance and Qur'anic guidance, a fundamental symmetry between that Qur'anic guidance and universal human aspirations appears to provide an important direction for a sustainable Islamic banking industry. Contemporary Muslim professionals should not be complacent on one hand and need not be isolated in their pursuit of excellence in terms of contributing their responsibility towards humanity.

It should instill in present day Islamic finance professionals the need to be skillful and morally upright. A real alternative to conventional and *ribawi* (interest) based-financial system must emerge with full force. To sustain the Islamic finance services as a source of welfare of humanity, value-based governance is of the utmost importance. The details of such emerging issues have been

highlighted in this paper. It is my belief that once these ideas are incorporated in corporate governance, it will go a long way to providing sustainable development to Islamic banking and the finance system. This will liberate and set free humanity from the clutches of the exploitative system of *riba*. Islamic prescription of a just economic system has no place for *riba* and usury. Otherwise, this system will not merely be seen as a sin, but a crime against humanity.

