

# Islamic Worldview–Based Corporate Governance Framework in Providing Guidance on Executive Directors’ Remuneration in an Islamic Financial Institution

**Md Nazim Uddin**

*Ankara University, Turkey*

**Ahasanul Haque**

*International Islamic University, Malaysia*

## **EXECUTIVE SUMMARY**

*This chapter addresses how corporate governance supports shareholder-director conflicts and company success. Islamic financial institution (IFI) governance and performance have not been studied, yet corporate governance has affected previous financial crises. This examines IFI board size, ownership, CEO duality, and pay committee independent directors. Also studied is how Islamic corporate governance influences executive director pay. Thus, IFIs require an IWBCGF to handle current and future corporate governance issues. Qualitative corporate governance metrics research and qualitative Islamic principle evaluation helped exploratory studies attain these goals. The research shows that corporate governance strongly impacts IFI executive pay. These results show that executive directors require an Islamic-based comprehensive governance framework to navigate corporate governance issues. The study makes literary contributions. It tackles the lack of religious research on Islam and IFI corporate governance. It highlights IFIs’ corporate governance and CEO remuneration.*

## **INTRODUCTION**

These disastrous incidents have eroded shareholders' wealth and questioned CEO remuneration schemes' ethics (Jan et al., 2023). Financial crises often center on CEO pay, raising questions about its influence on business behaviour and its ability to cause financial malfeasance (Kausar Alam et al., 2020). Executive compensation, especially in crises, highlights the need for a robust governance structure to manage Islamic financial institutions' top-tier executives' salaries (IFI). Pay policy inefficiencies and knowledge asymmetry cause economic costs and market failures. Aligning director and shareholder interests is a significant issue. Organisational governance systems strive to reduce this conflict and improve corporate performance (Murphy & Smolarski, 2020). Agency theory emphasises executive salary in motivating top management to prioritise shareholders' interests (Alam et al., 2019).

Directors' pay arrangements that match a company's strategic goals can promote stability and development. Executive compensation in listed companies has surged, but firm performance has lagged, a troubling trend (Bukhari et al., 2013). Islamic financial firms have yet to thoroughly investigate CEO remuneration and corporate governance procedures, especially in developing countries. Executives are seen as "fat cats among bankers," which fuels arguments over their remuneration packages.

The main problem is assessing the complex relationship between corporate governance structures and pay practices in IFIs, where agency conflicts, especially between majority and minority shareholders, grow. Lack of CEO compensation transparency increases knowledge asymmetry and moral hazard (Abd Aziz & Abd Ghadas, 2019). Due to its significant influence on corporate performance, pay has been a study focus. This study explores the complex relationship between corporate governance and executive director pay. This inquiry explores Islam's ideas and ideals beyond the traditional view. Shariah and religious traditions can give directors accountability, trustworthiness, responsibility, and ethics. Directors, custodians of shareholders, stakeholders, and Allah (SWT) can help create a fair and equitable business environment.

This study presents an Islamic worldview-based corporate governance framework (IWBCGF) based on divine teachings. The concept is based on the idea that directors will always find answers to corporate governance issues. This methodology combines modern corporate governance procedures with Islamic teachings to help IFIs negotiate executive director compensation. This study is important for two reasons. First, religion, especially Islam, has not been studied regarding corporate governance, senior directors' pay, and firm performance. Islamic principles applied to company governance and pay can provide insights and actions that differ from IFI norms. Second, this study provides a new viewpoint on how corporate governance structures affect directors' pay and business performance. It offers a new perspective

23 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: [www.igi-global.com/chapter/islamic-worldview-based-corporate-governance-framework-in-providing-guidance-on-executive-directors-remuneration-in-an-islamic-financial-institution/334891](http://www.igi-global.com/chapter/islamic-worldview-based-corporate-governance-framework-in-providing-guidance-on-executive-directors-remuneration-in-an-islamic-financial-institution/334891)

## Related Content

---

### Order Preserving Data Mining

Ioannis N. Kouris (2009). *Encyclopedia of Data Warehousing and Mining, Second Edition* (pp. 1470-1475).

[www.irma-international.org/chapter/order-preserving-data-mining/11014](http://www.irma-international.org/chapter/order-preserving-data-mining/11014)

### The Online Forum Impact on Student Engagement and Critical Thinking Disposition in General Education

Xinyu Chen and Wan Ahmad Jaafar Wan Yahaya (2024). *Embracing Cutting-Edge Technology in Modern Educational Settings* (pp. 48-68).

[www.irma-international.org/chapter/the-online-forum-impact-on-student-engagement-and-critical-thinking-disposition-in-general-education/336190](http://www.irma-international.org/chapter/the-online-forum-impact-on-student-engagement-and-critical-thinking-disposition-in-general-education/336190)

### Fostering Participatory Literacies in English Language Arts Instruction Using Student-Authored Podcasts

Molly Buckley-Marudas and Charles Ellenbogen (2020). *Participatory Literacy Practices for P-12 Classrooms in the Digital Age* (pp. 20-39).

[www.irma-international.org/chapter/fostering-participatory-literacies-in-english-language-arts-instruction-using-student-authored-podcasts/237411](http://www.irma-international.org/chapter/fostering-participatory-literacies-in-english-language-arts-instruction-using-student-authored-podcasts/237411)

### Web Mining Overview

Bamshad Mobasher (2009). *Encyclopedia of Data Warehousing and Mining, Second Edition* (pp. 2085-2089).

[www.irma-international.org/chapter/web-mining-overview/11107](http://www.irma-international.org/chapter/web-mining-overview/11107)

### Feature Extraction/Selection in High-Dimensional Spectral Data

Seoung Bum Kim (2009). *Encyclopedia of Data Warehousing and Mining, Second Edition* (pp. 863-869).

[www.irma-international.org/chapter/feature-extraction-selection-high-dimensional/10921](http://www.irma-international.org/chapter/feature-extraction-selection-high-dimensional/10921)