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Stakeholders Model of Governance in Islamic Economic System

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Abstract

The paper discusses the design of an efficient and optimal corporate governance structure of a firm within Islamic economic system. The objective of this paper is to identify factors, which will influence corporate governance within an Islamic economic system and to examine if corporate governance model will be 'shareholder'- or 'stakeholder'-centered? The paper argues that the governance model in Islamic economic system is a stakeholder-oriented model where governance structure and process at system and firm level protect rights of stakeholders who are exposed to any risk as a result of firm's activities. Whereas conventional system is struggling with finding convincing arguments to justify stakeholders' participation in governance, the foundation of a stakeholder model is found in Islam's principles of property rights, commitment to explicit and implicit contractual agreements and implementation of an effective incentive system. The paper also discusses the implication of a stakeholder model on depositors, Islamic financial institutions, and regulators.

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