



## CORPORATE GOVERNANCE AND ISLAMIC INSTITUTIONS: TRENDS AND APPROACHES

**Alaa Ahmed Salam**

Africa University For Humanities & Applied Science, Libya. Email: alaasalam807@yahoo.com

### ABSTRACT

In the recent years, Corporate Governance has become as an important control system and its significance has led to necessity for this system to be applied in several countries around the world. The present study emphasized on the origin of this control system that appeared on 2002 in The USA as a form of Sarbanes–Oxley Act. The previous studies in the literature review show that the beginning of corporate governance started for centuries ago. The present research deals with and highlight of some valuable information regarding the origin of corporate governance with its existence and spread in the Middle-East countries via what have been done by the scholars in these countries. Therefore, this research gives a rich imagination and explanation to the academic about the history and root of corporate governance with brief description about its existence in some of the Asian countries.

**Keywords:** Corporate governance, Agency theory, History

### 1. INTRODUCTION

Recently, many countries around the world have concentrated on corporate governance system in their corporations. The purpose behind that is the global importance role of this system in controlling the operation framework of the companies (Alabdullah, Yahya, Nor, & Majeed, 2016; Alfadhil & Alabdullah, 2013). This system increases the interest of the shareholders via relying on set of robust mechanisms and principles of corporate governance to control the actions of the companies based on principles of disclosure and transparency. Corporate governance has received attention because it positively affects the performance and value of the company (Alabdullah, Yahya, & Ramayah, 2014; Alfadhil & Alabdullah, 2013) because applying such a system has its positive impact on market growth and economic growth (Abushammala, Alabdullah, & Ahmed, 2015). Furthermore, the present paper dealt with the relationship between the two important parties, the management and the owner with the conflict of interest between them (Alabdullah, 2016). Several large corporations and global institutions in the world faced bankruptcy and collapses such as Adolphia and Worldcom. This has led several countries and their companies to pay more attention to the principles and mechanisms of corporate governance (Alabdullah, 2018).

### 2. LITERATURE REVIEW

#### 2.1. Origin and development of corporate governance

The outbreak of the global crisis because of financial corruption in the US and other countries in the world have called the researchers for applying a set of control systems such as forensic accounting (Alabdullah, Alfadhil, Yahya, & Rabi, 2014) and corporate governance (Alabdullah, 2016). This has led the necessity to understand such system, especially corporate governance, by several parties as academics, international associations and business world. Corporate governance has been defined by several researchers, professional and academic organizations,

in the way that there is no consistent definition for this control system, which needs to formulate a broader concept to be understood by different parties (Alabdullah 2014). For example, (Cadbury, 1992) dealt with the explanation of corporate governance as a system that controlled and managed a company.

In the literature review, previous studies could give clear picture about the origin and roots of corporate governance. The origins of corporate governance (CG) in the United States appeared in the 19th century in Canal Companies. The development in the processing of corporate governance and financial reporting, in Canal Companies, was really influenced by the stockholder the review committee (SRC). Moreover, other studies demonstrated that the first debate on corporate governance was in Netherlands in 1602. Also, the clear surprise that drew the root of CG was in France that represented by the Mississippi Company in 1720 (Alabdullah 2014).

## **2.2. Corporate governance in Arab countries**

Recently there have been a wave of studies in developed countries that focused on corporate governance (Alabdullah, 2019; Ali, Frynas, & Mahmood, 2017). Nonetheless, a few concern has been given for corporate governance in the last five years in developing countries, in Arab countries, there have been great attention in this subject especially in Jordan (Alabdullah, 2016, 2016, 2016, 2016, 2017, 2018; Alabdullah & Alasadi; Alabdullah , Laadjal, Ries, & Al-Asadi, 2018; Alabdullah, Ries, , & Nor, 2019; Alabdullah, Ries, & Thottoli, 2019; Alabdullah, Nor, & Ries, 2018; Alabdullah, Yahya, Nor, & Majeed, 2016; Alabdullah et al., 2014). On the other hand, new contemporary trends in the world have been given an intensive attention to the Islamic financial Industry because of the financial crises as an alternative choice through using tools based on the real economic (Ahmed, Alabdullah, Islam, & Asmar; Ahmed, Aiffin, Alabdullah, & Zuqebah, 2016; Ahmed et al., 2019; Ahmed, Alabdullah, Amran, & Yahya, 2018; Ahmed, Islam, Zuqibeh, & Alabdullah, 2014; Ahmed, Islam, & Alabdullah, 2014; Ahmed, Islam, bin Amran, & Alabdullah, 2018; Ahmed, Yahya, & Islam, 2013; Ahmed, 2010), and this also give more attention to the risks management in Islamic financial instruments (Ahmed et al., 2019; Rahim, Ahmed, & Faeq, 2018; Ahmed, Amran, & Islam, 2018; Ahmed, Islam, & Ariffin, 2015; Ahmed et al., 2014; Ahmed, E. R., Islam, Ariffin, Halim, & Moniruzzaman, 2013; Ahmed, Yahaya, & Harashid, 2012; Ahmed, & Zuqibeh, 2013; Ahmed, Islam, & Al-Harthy, 2013).

## **3. CONCLUSION**

Recently, the world has faced many failures at the level of all sectors such as Enron and Arthur Andersen. These failures have led to a shock for all countries in the world, giving great attention to several parties that dealt with companies which have poor level of corporate governance.

Several studies have dealt with the link between corporate governance and firm performance. However, there have been a few empirical studies that take into account to investigate this relationship in Arab countries, while there are a good number of studies that have been done in Jordan. The present study recommended the future researchers to focus on both corporate governance and Islamic financial Industry because of the importance for these two tools.

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