HUMAN GOVERNANCE AND FIRM SUCCESS FROM WESTERN AND ISLAMIC PERSPECTIVES

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ABSTRACT – Human governance is an essential internal value that acts as a guide for a human to behave. Positive internal values can be the drivers to inspire people to work with integrity and accountability for the well-being of the businesses. Previous studies on corporate governance and firm performance show very little empirical evidence done in determining the role of human governance. The term human governance itself especially from the Western perspective is still unclearly defined. Thus, the objectives of this study are twofold. First, to investigate the characteristics of human governance from Western and Islamic perspectives. Second, to examine the factors that can improve the quality of human governance in order to mitigate the misconduct behaviour among the employees and the top management. The findings show that Western human governance emphasizes more on the good ethical values of human behaviour but Islamic human governance highlight on religiosity that build good spiritual that generates good behaviour among the Muslim people.

INTRODUCTION

In the current environment, we have seen many corporate failures such as Wirecard AG in Germany (2020), Lurkin Coffee in China (2020), 1 Malaysia Development Berhad (1MDB) in Malaysia (2018), Patisserie Valerie in the United Kingdom (2018) and many more. This scandal is not merely a failure of corporate governance but more importantly, the failure of human governance. To achieve corporate success, a firm must balance the interest of the stakeholders in the business operation, including the rights and desires of its employees, shareholders, customers and the society as a whole. Through the involvement of human governance, the firm will change its focus from profit-oriented to stakeholder-oriented. Human governance will reduce the occurrence of cases of wrongdoing by individual entrusted with decision-making authority (Khan, 2015).

One of the measurements need to shift the culture of corporate governance to human governance is by looking at the individuals who contribute to the firm. Good employees exercise good ethics and values. They are responsible for showing good attitudes that govern by integrity, justice and accountability in doing their tasks to endure the confidence of stakeholders on the performance of the firm. Hence, these ethical values can only be originated through developing human governance. Human governance can also be described as an internal process which is a guide to human action in a firm. Moreover, all actions in a firm are carried out by the people who work on behalf of the firm, which includes the firm's employees and high-ranking management staffs. Many scholars in corporate governance argued that corporate governance alone is insufficient to safeguard the organisations in the long-term (Alhabshi, 1998; Iqbal & Lewis, 2009; Khan, 2015; Hilb, 2016). They depended too much on the corporate governance process that only suitable for a short-term period as this process unable to encourage the employees' learning process. These employees only follow the stated regulations and procedures without improving their internal values, that eventually can lead to poor performance (Iqbal & Lewis, 2009; Mahbob et al., 2006).

Salleh and Ahmad (2010) described human governance as people-centric, and the positive internal values can be the drivers to inspire people to work with integrity and accountability for the well-being of the businesses. These positive values allow employees to achieve what is beyond the rules and regulations of corporate governance. At the same time, it can increase the dedication of both workers and management to work hard, become more productive for the success of the firm in the long run.

Recognising the importance of human governance to the success of a firm, this study aims to investigate the characteristics of human governance from Western and Islamic perspectives. Moreover, this study also intended to examine factors that can improve the quality of human governance in the firm to mitigate the misconduct behaviour among the employees and the top management.
IMPACT OF CORPORATE GOVERNANCE AND HUMAN GOVERNANCE ON FIRM SUCCESS

In the modern era, corporate governance has become very relevant as firms grow and expand rapidly in both developed and emerging economies (Freeman, 2010). Cadbury Report defined corporate governance as a "system by which businesses are directed and controlled" (Cadbury, 1992). It covers all efforts to maximise the value of a firm's owners without compromising the interests of other stakeholders. Moreover, investors are eager to pay a high premium on shares of firms with a good corporate governance structure Clarke (2007). This shows why corporate governance mechanisms can be related to the financial performance of firms. Previous studies demonstrate mixed evidence on the relationship between corporate governance and the firm's performance. The majority of the researches show the excellent corporate governance has a positive impact on the financial performance of the firm (Stanwick & Stanwick, 2002). However, Jensen and Meckling (1976) Donaldson and Davis (1991) and Ehikioya (2009) discovered a different view.

Stanwick and Stanwick (2002) revealed firms with good corporate governance able to increase its value by 10% to 12%. This figure able to generate the investors' confidence and interest to invest further in this firm. On the other hand, other factors that investors look at when making the investment decisions are the insider shareholder (Akshita & Sharma, 2015; Gupta & Sachdeva, 2019), audit committees (Crisan & Fulop, 2014), strong board independence (Christensen, et al., 2010), the board size, CEO duality and the corporate structure of the firm (Mallin, 2016; Jakpar et al., 2019).

Corporate governance is also a strategy used to control the firm's management and accountability in order to increase board and firm performance (PwC, 2012). A good practice of corporate governance is strongly influenced by the parties involved in the management system of a particular firm. This includes the shareholders, investors, creditors, employees, and the government. The implementation of good governance able to optimise the value for the stakeholders' wealth in the long run. Thus, it is crucial to ensure that the needs of the stakeholders are balanced in business decision making.

However, without the integrity in handling the stakeholders' wealth, the management of the firm merely concentrate on the monetary returns as their end objective. This can lead to an unethical and misconduct of power in the decision-making process, such as misreporting of income and falsifying accounting statements. This is the main reason that creates numerous corporate failures. Hence, it is very critical to comprehend the role of human governance as an internal mechanism to guide ethical human behaviour among the employees in a firm. The practical human governance can contribute to robust morality, integrity and accountability.

As mentioned by Susanto (2016), the aims of human governance include (1) upholding Maqasid al Shariah (objective of Shariah); (2) enhancing the individuals' productivity as every deed is defined as ibadah. Whereby, the employees work efficiently and ethically to get the blessing from God; and (3) as a platform to ensure shareholders and stakeholders working together effectively. This will encourage individual in the organisation to be more responsible for all of his actions, especially with regards to the roles and responsibilities that have been assigned. Thus, effective corporate governance and human governance can lead to a successful firm.

HUMAN GOVERNANCE FROM WESTERN PERSPECTIVE

Governance is a process of decision-making which every decision taken will lead to it owns implication. In other words, governance is a concept based on a set of rules, norms, procedures and practices that decide the consequences during the decision-making process (Choudhury & Hoque, 2019). Khan (2015) believes that good governance help to achieve the organisational goal and maintaining a good relationship with all the workers, shareholders and stakeholders. Meanwhile, Graham et al. (2013), stated good governance marks a shift away from inefficiency, secrecy and red tape, and it incorporates concern for accountability, transparency, fairness and effectiveness. All these attributes are measuring the good values among people. Thus, human governance is about building one's ability and capacity to connect one's inner self with one's outer dimension that produces a high value of people (Salleh & Heidecke, 2019). Thus, human governance also can serve as a pathway to enhance good values among the employees and shareholders in the corporation.

Human governance from a Western perspective focusing more on ethical behaviour of the leaders and the employees in running the business operations. Ethical lapses among the leaders and the employees generally affect human behaviour. The ethical values and virtues such as accountability, honesty, sincerity, integrity, the fulfilment of a promise, compassion, justice, equity, benevolent among others are the value that humankind had been taught to emulate irrespective of races, cultures, religions and beliefs (Mahbob, et al., 2006). By practising human governance, it can hold many promises for more sustained ethical behaviour among professional bodies. However, the issue of how to inculcate human governance remains pressing. When human governance is being practised, integrity can be observed as an internal moral measurement. Hilb (2016) proposed four main pre-condition to develop integrated human governance in board management where it comprises of (1) diversity of board members; (2) constructive and open-minded board culture that encourages trust; (3) efficient board structure that has good network; (4) stakeholder-oriented board measures with a good vision for success. These characteristics are shown in Figure 1:
The four components in Figure 1 should be integrated with a process shown in Figure 2, whereby at each different level, success is measured based on the critical stakeholder groups, and the responses from this group are measured parodically to assess the performance of the firm leadership.

**HUMAN GOVERNANCE FROM ISLAMIC PERSPECTIVE**

The discussion on governance is always related to accountability. Accountability is considered a central theme in Islam, as accountability to Allah (SWT) and community is the pillar of a Muslim’s faith and belief (Ihsan & Ayedh, 2015). Moreover, the word *hisab* (accountability) has been repeated more than eight times in different verses of the Al-Quran. From the Islamic point of view, accountability varies from the Western definition. Accountability in Islam is a fundamental responsibility of every Muslim, and every Muslim will be accountable during the Day of Judgment for every action that they are taken in their everyday activities. As stated in the al-Quran:
"He does take account of them (all), and hath numbered them (all) exactly. And every one of them will come to Him singly on the Day of Judgement."

(Surah Maryam, 19: 93-95)

Additionally, accountability is acknowledged as part of enslavement (ibadah) to Allah SWT in order to achieve al-Falah (successful) in this world and the hereafter (Ihsan & Ayedh, 2015). Meanwhile, accountability from Western view is incomparable to Islamic accountability, whereby, according to the Western perspective, accountability is independent with religious issues (Lehman, 2004).

Hence, to ensure the implementation of human governance in the organisation, it all begins by ensuring that representatives, employees and shareholders are accountable to fulfilling their roles and obligations by empowering Islamic values such as ikhlas (sincerity), 'adil (justice) and amanah (trustworthy).

Islamic Governance Theory

Lewis (2005) described the governance in Islam consist of four values, which is accountability, transparency or disclosure, responsibility and fairness. He is also claimed that in terms of Islamic corporate governance is differs from Western corporate governance whereby Islamic corporate governance has more significant obligations and responsibilities towards clients, vendors, workers and rivals, embracing both the spiritual and physical needs of the Islamic society.

On the other hand, the principles of Tawhid (absolute unity of God) lead Muslim to be always mindful of his duties as a vicegerent and to behave with good values in performing the tasks entrusted to him. Therefore, in representing the role of human governance, a person must seek the guidance of the Creator of the universe to fulfil their life on earth as a vicegerent and derive human governance principles in their daily activities.

According to Shariah law, in order to increase productivity, every Muslim should emphasise high moral behaviours and ethical values, namely accountability, justice and honesty in every tasks and responsibility that they are involved (Hafeez, 2013; Ahmad & Rashid, 2013; Sapuan, 2016). Hence, the Islamic human governance values are closely related to a good endeavour of a Muslim that explains below:

(i) Intention (niyyah)

The intention is the foundation of worship and the basis of Muslim conduct. Action is invalid if it was taken without intention to get the blessing from God. This intention is closely associated with sincerity (Ikhlas). If one is sincere in performing the task in hand, they must ensure that the task is performed to the best of their capability.

"As for those who strive for Us, We shall surely guide them in Our ways."

(Surah Al-Ankabut: 69)

(ii) Justice ('adil)

Justice represents fairness, non-discrimination, equity to ensure balance and harmony. In the process of fulfilling the responsibilities as workers and shareholders, justice is mandatory since all prohibitions and unfair practices of transactions and operations in business have to be evaded. As mentioned in al-Quran:

"God commands justice and the doing of good (beneficence)."

(Surah Al-Nahl, 90)

(iii) Benevolence (al-Ihsan)

Benevolence (al-Ihsan) are the qualities of right conduct, goodness, proficiency and efficiency. This idea relates to accountability as to whether human accountable to God and society in handling their responsibilities. Thus, this mindset would improve productivity when conducting any tasks relevant to business operation.

(iv) Trustworthy (amanah)

Trustworthiness improves the integrity and good moral conduct. To be trustworthy means to be truthful, fair in dealings, to uphold trusts and to retain commitments and obligations. Trustworthiness is regarded as one's obligations towards God, as mentioned in al-Quran, and God praises the believers by promising them Paradise.

"Verily Allah commands you to fulfil your trusts to those whom it is due, and when you judge, judge with justice. Very how excellence is the guidance Allah gave you, it is He who sees all things."

(Surah Al-Nisa: 58)

These core values were stated in Al-Quran and As-Sunnah, and it can drive the human to be a high-quality human being and able to contribute effectively to the development of Islamic institutions and continue to uphold the concept of social justice.
MITIGATE MISCONDUCT AND EMPOWER HUMAN GOVERNANCE

Accountability of the Employees

Accountability is an essential value to enhance corporate discipline and integrity. Choosing the right people to work in a firm is very important in creating a culture of self-discipline as the employees always consider taking the right action without any enforcement from the top management. This behaviour can enrich human governance that responsible, creative and excel within the corporation (Khan, 2015).

In Islam, every Muslims are encouraged to strive for al-Falah, hence, as a faithful Muslim, employees must implement integrity in their works and always reveal accurate information so that the moral hazard problems arising from the asymmetric information can be minimised and the firm can earn higher profit in their business operation.

Develop Good Leadership Qualities

Strategic leadership quality is essential to create a good pattern of governance in a corporation. Among the qualities that essential to produce good governance among leaders are:

Visionary Leader

These leaders can develop a unique vision that attracts commitment, inspires people, revitalises organisations and mobilises the resources needed to turn vision into reality. Effective human governance involves a transformational from the traditional approach to more inclusive and participative governance. However, transformational change is difficult to be implemented once people are complacent with their current situation. Thus, to implement effective human governance, it requires visionary leadership that can help generate a vision that inspires commitment from the workers towards transformational to a new culture.

Credibility and integrity

A task of leadership in synergies collaboration is to create and nurture a credible and open process which promotes trust and confidence among key stakeholders. A credible process is one which has integrity and a fair chance to succeed. Incorporate governance, integrity and justice are the twin solutions to mitigate the problem of fraud, deceptions, misrepresentations, false claims or any unscrupulous acts among the people. Integrity and justice of the leader can attract and retain talents through employee loyalty and building goodwill in the organisation, which in turn may increase the probability of the organisation to success (Khan, 2015).

The consensus in Decision Making (Shura)

Encourage democratic decision-making process in solving problems and making decisions is fundamental. Open discussion and debates among leaders, shareholders and other stakeholders can inspire consultation (shura) among the board members to express their wisdom, opinion, knowledge sharing and experiences in order to produce consensus and justice in the decision-making process.

Chapra (1992) emphasised consultation (shura) is not an option, but a responsibility that needs to be implemented by all leaders in every firm. Thus, shura has been proposed as one of the frameworks to promote justice, openness and accountability in business operation (Iqbal & Mirakhor, 2004; Yusuf et al., 2016; Sapuan et al., 2015).

Education and Legislation

One of the ways to remedy misconduct and unethical behaviours is through education and law reformation. The starting point to curb misconduct behaviour lies in reforming social values and empowering social justice (Alhabshi et al., 1998). These are the basis of an ethical education program. Training of employees and top management on ethical issues and legislation can equip these motivated people with appropriate ethical knowledge and integrity to adapt with a rapid change of borderless world market as well as the advancement in technology that motivate changes in the way to conduct business (Mahbob, 2006). Thus, adhering to ethical standards can drive all employees toward the desire for excellence and success.

Obeying the law is often such an overwhelming idea that people tend to forget why the law exists. This legalism contributes to an atmosphere in which people prefer to do something because "they have to do it" not because "they want to do it." The result is a culture of the firm that does not inherently support excellence but insists on enforcement (Khan, 2015). A firm should concentrate on creating ethical cultures where good values become their way of life in implementing works. They should trust in the laws and agree to comply with them because "they want to" not because "they need to". This instils a culture of excellence among all employees and encourages human governance.
Adoption of Technology

The most pertinent change resulting from technological advancement is, of course, the future roles to be played by information and computer technology (Osman, 2000). In fighting against misconduct, fraud and inefficiency in the corporation, technology changes must be taken into consideration by the governance of the corporation in order to ensure the role of technology is strategically embedded within the efforts to increase the integrity, accountability and transparency of the firm. The digital integration inter-department is very important to curb misconduct behaviours. Nonetheless, as technology becomes an integral part of the ecosystem in corporate governance, the capabilities and skills set of the employees need to be strengthened to seize the opportunities arising from technology entirely. With the increased connectivity, however, new risks will emerge internally and externally, i.e., cyber threats (NACP, 2019). Thus, emphasising human governance can encourage employees who are transparent and to manage the information more effectively and transparent.

CONCLUSION

Human governance is essential to ensure the success of a corporation. Based on the explanation of human governance from the Western and Islamic perspective, there are not many differences in the concept and characteristics of human governance from both points of view. Western human governance emphasises more on the intrinsic ethical values of human behaviour but Islamic human governance highlight on religiosity that builds the right spiritual that generates good behaviour because of Allah SWT. In designing the governance framework, attention must be paid to the impact it will have on the market within which the organisation is operating and its shareholders and stakeholders. Disclosure of information transparency, efficient reporting and accountability of the management are vital to ensure the success of firms. Corporate governance framework should encourage ethical behaviour and support the development of human governance. Depending too much on the corporate governance process without improving the ethics and integrity of the people inside the organisation can only lead to corporate failures.

REFERENCES


AUTHORS' BIOGRAPHY

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