



Research Paper

Islamic corporate Governance practices in Pakistan

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ABSTRACT:- Corporate governance has became one of the vital governance tools after the corporate world has seen the examples of bankruptcy of different public companies due to accounting frauds such as Polly Peck (1990), Bank of Credit and Commercial International (1991), Barings Banks (1995), Enron (2001) and WorldCom (2004). The rationale of this study is to identify that the Islamic corporate governance practices are helpful to protect the stakes of all stake holders. Furthermore this study tries to explore that Islamic corporate governance practices are effective for the protection of stake holder's interest in the corporate sector of Pakistan. Moreover this paper sheds light on how Islamic corporate governance is an effective tool as compared to auditing. The current study will base upon the three Pakistani firms that are listed on the Karachi stock exchange such as Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited. So the sample size for the current study is three firms from the food industry of Pakistan.

KEYWORDS: - *Corporate governance practices, corporate governance tools, combine code*

I. INTRODUCTION

Wearing (2005) has stated that corporate governance has became one of the vital governance tools after the corporate world has seen the examples of bankruptcy of different public companies due to accounting frauds such as Polly Peck (1990), Bank of Credit and Commercial International (1991), Barings Banks (1995), Enron (2001) and WorldCom (2004). These companies have defaulted because of poor accounting policies, auditing practices or internal control system. These examples have clearly send messages to the stakes holders as well as to the regulatory authorities that accounting and auditing practices cannot ensure the safety of the stake holder's interest in a company.

Before the end of last century the investors and the regulatory bodies have the belief that proper accounting and auditing system ensure the safety of the stake holder's interest in a company. Accountants have to prepare a full set of accounting reports such as income statement, balance sheet, cash flow statement and changes in owner's equity statement along with the notes to financial statements (Meigs, Williams, Haka and Bettner, 2001). These financial statements are generated with the help of the proper accounting system that is established under the guidance of IASB. These financial statements are based upon the each and every financial transactions of the firm so that the impact of every transaction will be translated into the financial statements. These financial statements help to know the real financial health and performance of the company through which the stake holders get an idea about the efficiency of the management.

Accountants are producing these financial statements and the accountants are working under the management so highly probability was there that the management will force accountants to change the contents of the financial statements according to the desire of management. To remove the chances of manipulation external auditing was introduced by the regulatory authorities. External auditing is the process through, which the reliability, true and fair view and preparation of financial statements under statutory requirement is ensure so that the auditor is able to give his opinion about the financial reporting process of the company (Arens, Elder and Beasley, 2005). External auditors are not working under the management and they are outsider as well so that they can give the true and fair opinion about the financial statements of the firm. In this way accounting and auditing was used to protect the different parties who have their stakes in the firm.

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In the last decade of previous century when the companies start collapsing one after the other the regulators and stake holders reached at the decision that now accounting and auditing is not enough to protect their stakes. In this way the regulators, stake holders and researchers started their efforts to find a new governance tool so that their stakes can be protected in the long term. The results of their effort came in the form of a new idea that is known as corporate governance and from the last one decade it becomes one of the important governance tools for the corporate sector (Short, Keasey, Wright and Hull, 1999)

II. CORPORATE GOVERNANCE

It is the system for protecting and advancing the share holder's interest by setting strategic direction for the firm and achieving them by electing and monitoring the capable management (Solomon, 2010). It is the process of protecting the stakes of various parties that have their interest attached with a company (Fernando, 2009). Corporate governance is the procedure through which the management of the company is achieving the goals of various stake holders (Becht, Macro, Patrick and Alisa, 2000)

These definitions are explaining that corporate governance is helpful to the companies to protect the stakes of all the stakeholders that are associated with the companies. Corporate governance is not only used to protect the stakes of share holders because they are the owners but it is to protect the stakes of all the parties that are linked with the company such as the potential investors, creditors, customers, suppliers, government agencies and employees. Under the corporate governance all the stakeholders are equal and it is important for the firms to protect the stakes of every stake holders.

Corporate governance practices

Different countries are following different practices of corporate governance around the globe. The companies that are operating in UK these companies have to follow the requirements of combined code of corporate governance. Combined code has different requirements related with the structure of board of governance, different committees (audit committee, nomination committee and remuneration committee) and risk management procedure (Mallin, 2010). The companies that are following the requirements of combined code these companies enjoy good reputation in the market because implementation of combined code is not compulsory for the companies in UK

Companies that are operating in USA these companies have to follow Sarban Oxley Act that is related with corporate governance and all the requirements that are provided in Sarban Oxley Act. Sarban Oxley Act is based upon the requirements of the regulatory authorities of USA and all the companies that are operating in USA these companies are legally bound to follow the Sarban Oxley Act requirements. Some of the requirements of Sarban Oxley Act are different from the combined code of corporate governance but the maximum terms are similar to the combined code that is being followed in UK

In Japan the system of corporate governance is totally different from the UK and USA because the main source of funding to Japanese companies is coming through the bank. Japanese companies have more reliance on debt financing as compared to equity finance and the firm that is taking loans from a bank will become the main bank for the Japanese companies (Okabe, 2004). The main bank has the close interaction with the Japanese firms and the main bank will become one of the main stakeholders of the firm. Due to this reason the main bank is able to keep a close check on the operation of the firm and it has the main responsibility for the implementation of corporate governance procedure of the firm for the protection of the interest of stakeholders

The corporate governance practice in Germany is also different as compared to the other countries of the world. In Germany the companies have two tier board systems and the supervisory board is there to work for the governance within the company. In this way the main task of the supervisory board is to take care of all governance related issues within the company (Odenius, 2008)

Islamic corporate governance concept is totally different from the concepts that are being implemented into different countries of the world. Under the Islamic concepts the companies have to work for increasing the shareholder's wealth. The Islamic concept of corporate governance is based upon the Tawhid or oneness of Allah. The Islamic context of corporate governance is not based upon the protection of stakeholders' interest but it is also covered the ethics and that the management of the company should follow all the Islamic concepts while performing the operations of the company (Iqbal and Mirakhor, 2004). Choudhary and Hoque (2004) have explained the concept of Tawhid in the Islamic corporate governance model. Allah says in Quran

"Men who celebrate the praises of Allah standing, sitting and lying down on their sides, and contemplate the wonders of creation in the heavens and the earth, (with the thought): Our Lord! Not for naught Hast thou created all this! Glory to Thee! Give us Salvation from the Penalty of the Fire" (3: 191)

The above statement has explain the basic principal of Islamic corporate governance which emphasized that everything is being created by Allah for a particular reason and the humans are created by the Allah to act as the world's vicegerent. Allah knows everything related with the humans and the humans are answerable to Allah and the principle of Tawhid will becomes the basis of corporate governance in the Islamic model

From the above discussion it is clear that different countries of the world are following different governance mechanism in their countries. The firms are bound to follow that system of corporate governance, which is implemented in that specific country. The Islamic concept of corporate governance is totally different from the other systems of corporate governance that are implemented in the different western countries. With the help of the current research study the effort will be made to find out that the companies, which are operating in Pakistan are following the Islamic corporate governance system or not. For this purpose the current study will focus upon three Pakistani firms such as Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited

III. RESEARCH QUESTIONS

Current study will be focused upon the implementation of Islamic corporate governance practices that are being followed by the Pakistani firms. All the companies that are operating in Pakistan they should have to follow all the requirements of Islamic corporate governance because it is the responsibility of every Muslim to follow the teaching of Islam. This study will be helpful to get the answers of the following research questions based upon the critical examination of Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited. The current study is based upon the following three research questions (hypotheses)

- | | |
|--------------|---|
| Hypothesis 1 | Islamic corporate governance practices are helpful to protect the stakes of all stakeholders |
| Hypothesis 2 | Islamic corporate governance practices are effective for the protection of stakeholder's interest in the corporate sector of Pakistan |
| Hypothesis 3 | How Islamic corporate governance is an effective tool as compared to auditing |
| Hypothesis 4 | Corporate governance is helpful to improve the performance of the firm |

Research methodology

The current study will base upon the three Pakistani firms that are listed on the Karachi stock exchange such as Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited. So the sample size for the current study is three firms from the food industry of Pakistan.

For the current research study the data should be collected by two observational sources these are from the web site of these companies and the annual reports of these companies. All the relevant data regarding the compliance of Islamic corporate governance practices is available in the annual reports of these companies. The annual reports of these companies are available from the web sites of these companies.

The data will be analysed with the help of different analytical and comparative tools. The data will be matched with the requirements of Islamic Corporate governance practices. Moreover it is also used to compare that how corporate governance is a better tool as compared to auditing. Furthermore after the analysis phase the information will be presented in the form of different tables and graphs

Literature Review

Literature review is based upon the review of the literature regarding the corporate governance. The literature review regarding the corporate governance is providing information that different countries have their own system of corporate governance that is based upon the unique feature that are prevailing in that particular countries. Moreover the literature regarding the Islamic corporate governance is based upon the teaching of Islam, which consists upon the Quran (saying of Allah), Sunnah of Holy Prophet (PBUH) and the Shariah law. Before going into the detail of different practices of corporate governance some of the definitions of corporate governance are provided below

Corporate Governance

It is the system for protecting and advancing the share holder's interest by setting strategic direction for the firm and achieving them by electing and monitoring the capable management (Solomon, 2010). It is the process of protecting the stakes of various parties that have their interest attached with a company (Fernando, 2009). Corporate governance is the procedure through which the management of the company is achieving the goals of various stake holders (Becht, Macro, Patrick and Alisa, 2000).

Corporate governance practices

Different countries are following different practices of corporate governance around the globe. The corporate governance practices of G – 7 countries have been discussed in the current study because these are the developed countries of the world and their corporate governance practices will also be developed. To understand the corporate governance system that is being followed around the developed world will be beneficial for us. The detail about corporate governance tools that are being followed in G – 7 countries are provided below

Islamic corporate governance practices

Before going into the detail of Islamic corporate governance practices some basic detail is provided regarding the Islam and its teaching so that the concept of Islamic corporate governance can be explained easily

Basic Islamic teaching

Allah has created humans so that the humans can follow the teaching of Allah and His Prophet Muhammad (PBUH). Humans have to act as the vicegerent (Khalifa) of Allah on the earth and try to implement the Shariah law on earth. Shariah law is based upon the saying of Allah and the Sunnah of His Prophet (PBUH).

Allah said in Quran about the creation of humans

“I have only created Jinns and men, that they may serve Me” (Az-Zariya: 56)

With the help of this verse of Quran it is clear that humans and Jinns are created by Allah and the reason for their creation is to follow the teaching of Allah. As a Muslim we have a strong belief that everything, which is coming to us for example blessings, failure or suffering all of them are coming because Allah want it and the human have to bear everything with patience.

Allah has further stated in Quran

“Allah will throw back their mockery on them, and give them rope in their trespasses; so they will wander like blind ones.” (Al-Baqarah: 15)

The duty of the humans is to bear everything with patience and follow the teaching of Allah and Holy Prophet (PBUH) so that the human can get reward in hereafter. Allah also know that some of the human will follow the teaching of the Islam and other will not but the Allah want to test the humans that how they are spending life in the world.

Allah has stated In Quran

Behold, thy Lord said to the angels: "I will create a vicegerent on earth." They said: "Wilt Thou place therein one who will make mischief therein and shed blood? Whilst we do celebrate Thy praises and glorify Thy holy (name)?" He said: "I know what ye know not." (Al- Baqarah: 30)

The above verse of Holy Quran show that Allah knows everything that what the humans will do but the main reason is the test of humans that is why Allah has created them and sent them in this world.

Concept of governance in Islam

As discussed above that the humans are send in this world so that the humans can follow the teaching of Islam. In this way it is the duty of the Muslims to follow the teaching of Islam in every field of life. The reason for following the teaching of Islam in the governance of the companies is that every stake holder of the company is human either it is a share holder, supplier, auditor, employee, customer, or creditor. The stake of all the humans should be protected and no one is allowed to cheat another person (Archer and Rifaat, 2007)

Corporate governance in Islam

Malaysian Finance Committee on corporate governance has defined the Islamic corporate governance concept in the following words

The structure and process that is used for directing and managing the affairs of the business organisation for achieving corporate accountability and prosperity to attain share holder's value, whilst protecting the stakes of other stakeholders

Islamic corporate governance concept is totally different from the concepts that are being implemented into different countries of the world. Under the Islamic concepts the companies have to work for achieving the corporate objectives but following the teaching of Islam. Moreover Munid (2007) has explained the four important features of the Islamic corporate governance practices such as accountability, transparency, fairness and responsibility. The detail of these features are provided below

Accountability

Under the accountability aspects the Muslims have the belief that they have to give answer of all their deeds hereafter (the life after the death). In this way the Muslims are accountable for all their deeds in which they are involved in this world. Holy Prophet Muhammad (PBUH) said

“Each one of you is a guardian and each guardian is accountable to everything under his care”

With the help of this saying of Holy Prophet (PBUH) made it clear that no Muslim can be involved in any sort of fraud and corruption. For this reason under the Islamic concept of corporate governance the directors have to think that they are the guardian of the entire property of the share holders and as a good Muslims the directors cannot commit any sort of fraud or corruption (Chapra, 1992).

Transparency

The Muslim should be following the concept of transparency because as a Muslim he is not going to involve in any sort of corruption or fraud so the Muslim should emphasize the need of transparency in every field of life.

Allah has explained this concept as

“O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties” (Al-Baqarah: 282)

The Holy Prophet (PBUH) has stated about transparency

“If he does not strive diligently to promote their welfare, he will not enter Paradise with them.” (Bukhari)

The above verse of Quran and Hadith of Holy Prophet (PBUH) is also highlighting the concept of transparency in all the matter of life. Transparency is also highlighting the need of corporate social responsibility of the organisation because Islam is protecting the right of every individual that is living in the Muslim state. In this way the company should perform all their corporate social responsibilities that are governed under the Muslims (Chapra and Ahmed, 2002).

Fairness

Fairness is one of the vital features of Islamic teaching and Islam is following the concept of collective decision making, civil, political liberty and tolerance in resolving the disputes. Allah says

“It is part of the Mercy of Allah that thou dost deal gently with them. Wert thou severe or harsh-hearted, they would have broken away from about thee: so pass over (their faults), and ask for (Allah's) forgiveness for them; and consult them in affairs (of moment). Then, when thou hast taken a decision put thy trust in Allah. For Allah loves those who put their trust (in Him)” (Al-Imran: 159).

Islam is not following the concept of uncompromising for independent justice

Allah doth command you to render back your Trusts to those to whom they are due; And when ye judge between man and man, that ye judge with justice: Verily how excellent is the teaching which He giveth you! For Allah is He Who heareth and seeth all things (An-Nisa: 58).

In this way the Islamic corporate governance concept is based upon the fairness of every dealing in which the company involved either it is between the company and internal parties or between the company and outsiders. Every Muslim is responsible to follow the concept of fairness while performing his duties for the company so that the stakes of different parties can be protected (Ghazali, Omer and Aidit, 2005).

Responsibility

Every person that is working within the company he is bound to work ethically and follow the teaching of Islam in the commercial activities of the company as well. As the directors are holding all the assets of the company so under the Islamic concept of corporate governance they are bound to utilize the property of the company for the achievement of the corporate objectives only. This concept is explained by Allah in the Surah Al-Anfal (verse 27)

“O ye who believe! Betray not the trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you”

Holy Prophet (PBUH) has stated that

“A trustful merchant will be raised on the Day of Judgement together with the truthful and the martyrs”

The above teaching of Islam has highlighted the value of responsibility in the commercial dealing of the peoples. As the directors are holding all the assets of the company so under the Islamic concept of corporate governance they are bound to utilize the property of the company for the achievement of the corporate objectives only (Haneef, 1995)

Islamic corporate governance perspective

There are two main perspectives of Islamic corporate governance these are Tawhid and Surah based approach and stake holders based approach.

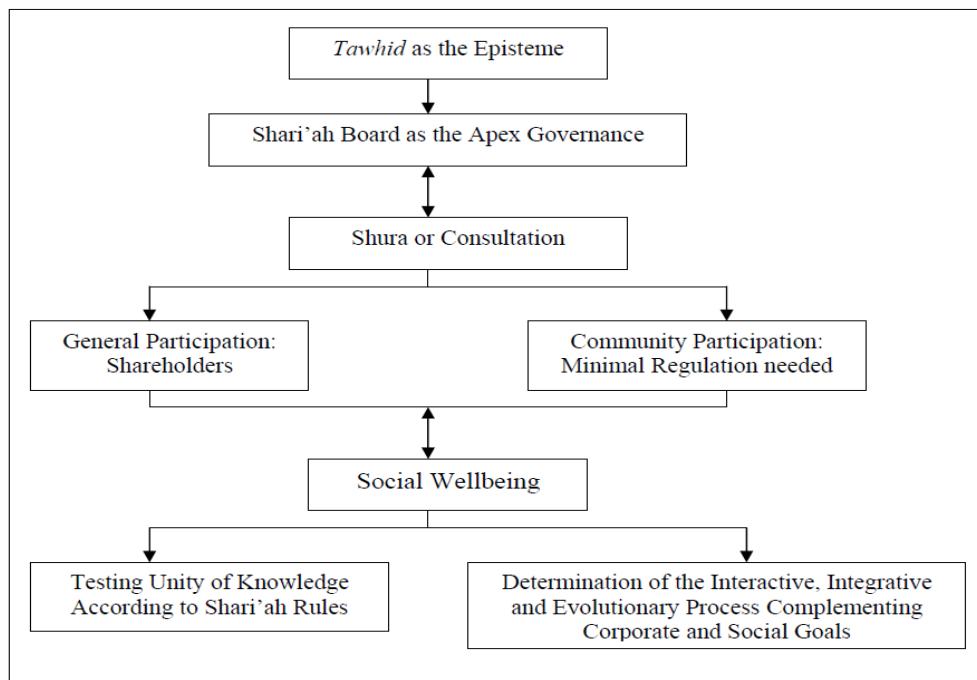
Tawhid and Surah based approach of corporate governance

Iqbal and Mirakh (2004) have stated that the Islamic concept of corporate governance is also based upon the Tawhid or oneness of Allah. The Islamic context of corporate governance is not based upon the protection of stake holders interest but it is also covered the ethics and that the management of the company should follow all the Islamic concepts while performing the operations of the company (Iqbal and Mirakh, 2004). Choudhary and Hoque (2004) have explained the concept of Tawhid in the Islamic corporate governance model. Allah says in Quran

“Men who celebrate the praises of Allah standing, sitting and lying down on their sides, and contemplate the wonders of creation in the heavens and the earth, (with the thought): Our Lord! Not for naught Hast thou created all this! Glory to Thee! Give us Salvation from the Penalty of the Fire” (3: 191)

The above statement has explain the basic principal of Islamic corporate governance which emphasized that everything is being created by Allah for a particular reason and the humans are created by the Allah to act as the world's vicegerent. Allah knows everything related with the humans and the humans are answerable to Allah and the principle of Tawhid will becomes the basis of corporate governance in the Islamic model

Fig 01: Tawhid and Surah based approach of Islamic corporate governance



The above figure is explaining the concept of Islamic corporate governance. This concept is based upon the concept of Tawhid or the oneness of Allah and all the powers are belonged to Him. Humans are the vicegerency (Khilafah) of Allah on the earth and have to follow the teaching of Allah for implementing the Shariah law on earth. Humans have to establish the Shariah board, which is responsible to look after the affairs of the company and try to find out that every activity of the company is based upon the Islamic teaching. Under Shariah board of the company the Shura or consultation is placed that are there to provide valuable information to the Shariah board for performing their objectives according to the teaching of Islam. Under Shura the stake holders of the company came and these are divided into two groups one is the general participants, which are highlighting the share holders of the company and the second group is the community participation, which are highlighting the other stake holders of the company such as the potential investors, government agencies, customers, suppliers, employees and creditor of the company. The objective for the entire system is to provide social welfare to the society because the companies are providing benefits to the entire society in the current world. It is very important for the directors to check that the entire company is operating on the Islamic teaching or not because the Islamic organisation has to work under the guidance of Islam and each and every operation of the company should be in line with the Islamic teaching either it is commercial or non commercial. For this reason the directors should take every activity of the organisation under the spotlight so that the operations of the company can be complying under the teaching of Islam (Lim, 2007).

Stake holders based approach

Chapra and Ahmed (2002) have given this approach and under this approach they have explained that the company should not value only their share holders but they have to give value to all its stake holders because all of them are associated with the company and their stake are attached with the company. Iqbal and Mirakhor (2004) have also explained the same concept by stating that the Islamic economic concept is based upon the protection of all the stake holders and not only of the share holders. Islam is giving the message of justice so due to this reason the stake of every Muslim should be protected and the Islamic corporate governance concept should follow the stake holder based approach rather than share holder based approach. This stake holder's based approach is focused upon different Islamic concepts such as principle of property right and principles of contractual agreement (Nienhaus, 2007). Moreover this stake holder approach is based upon the four features of Islamic corporate governance such as accountability, transparency, fairness and responsibility (Munid, 2007).

Islamic principle of property rights gives a framework for the identification, reorganization, protect and respect the interest of individuals, state, companies and community. In the Islamic point of view Allah is the

owner of property and every asset and the human have the right to use or manage it as a custodian. Allah has stated it in Quran

“Believe in Allah and His Messenger and spend of that whereof He made you Trustee” (57: 7)

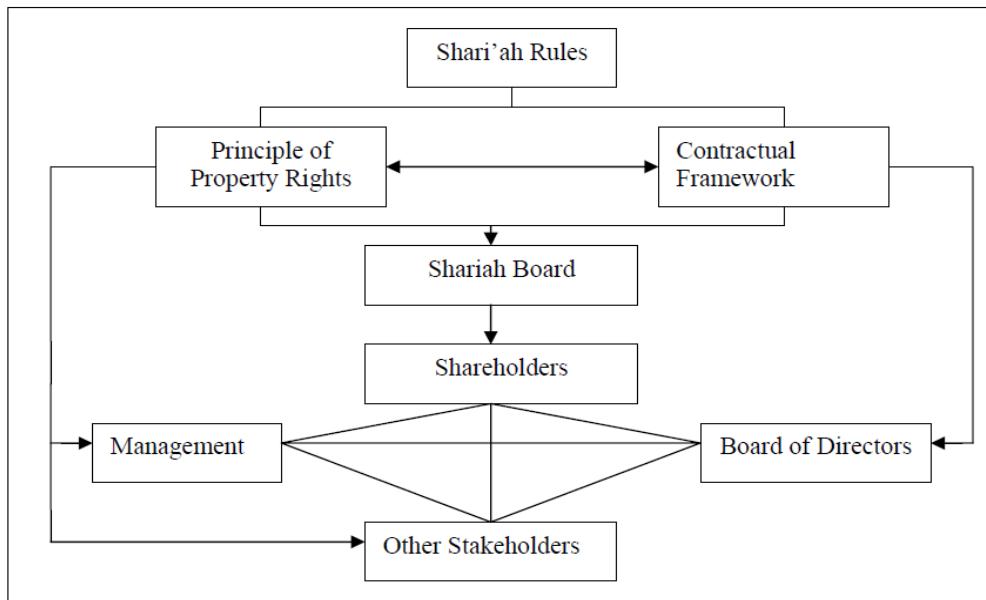
This verse of Quran is also highlighting the same fact that the humans can get the benefits of all the property or the assets but the real owner of the property is Allah. In this way it is clear that the real owner of everything is Allah but the stake holders can get the benefits from the property that has belonged to them by Allah (Iqbal and Mirakhor, 2004).

Islam has provided the unique treatment of contractual framework. Allah has ordered to every human being that they should give the performance of their contracts and the Quran states

“O you who believe, fulfil contracts” (5: 1)

This verse of Quran has made it compulsory for every individual, group, entire society, company and on state that whenever they will enter into a contract they should give the performance of that contract. This verse also highlighted the important of giving performance of contract under the Islamic concept of corporate governance. It is the responsibility of the board of directors of an Islamic company that they should give performance of their obligations and try to act in the best interest of stake holders because the directors are appointed for this purpose. The following diagram is highlighting the stake holders based approach of Islamic corporate governance

Fig: 02 Stake holders based approach of Islamic corporate governance



The stake holders based approach of Islamic corporate governance is explaining that the main importance of Islamic corporate governance is given to the Shariah rules and regulations. The stake holders based approach is focused upon the two main Islamic principles these are principle of property rights and principle of contractual agreements. The principle of property right is based upon the fact that the real owner of every property is Allah and the human are getting the rights to use it or getting benefits from it. It is the duty of the humans to use these assets for the betterment of Islam and under the Islamic teaching. The principle of contractual framework is based upon the fact that Allah has given order to every human that they should give the performance of their contract whenever they become the part of any contract. Due to this reason every person who is involved with any company he has to follow both the principles so that the implementation of Islamic corporate governance can be achieved

IV. METHODOLOGY

For the current research study the data will be collected by two observational sources these are from the web site of these companies and the annual reports of these companies. All the relevant data regarding the compliance of Islamic corporate governance practices is available in the annual reports of these companies. The annual reports of these companies are available from the web sites of these companies.

The current study will also focus upon the main points that are highlighted in the corporate governance code of Pakistan for analysing that the Pakistani code of corporate governance is based upon the Islamic concept of the corporate governance or not. The main reason for this analysis is that Pakistan is an Islamic country and all the contents that are there in the Pakistani code of corporate governance should be in line with the Islamic practices of corporate governance. As discussed in the last section of the current work that the main principles of Islamic corporate governance is the establishment of the Shariah board within the corporation and this Shariah board should look after all affairs of the companies. The main reason for checking the affairs of the companies by the Shariah board is that all the activities of the company either they are commercial or non commercial they should be in line with the teaching of Islam that are explained by The Allah and The Holy Prophet (PBUH). Moreover the concept of Islamic corporate governance is based upon the concept of Tawhid or the oneness of Allah and all the powers are belonged to Him. Humans are the vicegerency (Khilafah) of Allah on the earth and have to follow the teaching of Allah for implementing the Shariah law on earth. Furthermore the stake holders based approach is focused upon the two main Islamic principles these are principle of property rights and principle of contractual agreements. The principle of property right is based upon the fact that the real owner of every property is Allah and the human are getting the rights to use it or getting benefits from it. It is the duty of the humans to use these assets for the betterment of Islam and under the Islamic teaching. The principle of contractual framework in based upon the fact that Allah has given order to every human that they should give the performance of their contract whenever they become the part of any contract. Due to this reason every person who is involved with any company he has to follow both the principles so that the implementation of Islamic corporate governance can be achieved

Sample size

The sample size for the current study is the three listed Pakistani firms on the Karachi stock exchange. The firms are belonged to the food and beverage sector of the Karachi stock exchange (Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited). The firms are belonged to the same sector so that the effect of industry related factors can be eliminated. The data collection process was based upon the secondary data that is available on the web site of the chosen companies as well as from the annual reports of the companies. In this way no ethical or other problems has been faced for getting the desired data for the companies.

Analysis of the results

The data for the above mentioned companies have been collected. The collected data will be helpful for getting the answers of the research hypotheses (Islamic corporate governance practices are helpful to protect the stakes of all stake holders, Islamic corporate governance practices are effective for the protection of stake holder's interest in the corporate sector of Pakistan, corporate governance is helpful to improve the performance of the firm and how Islamic corporate governance is an effective tool as compared to auditing). Before presenting the results for the three chosen companies some useful information is provided regarding the Pakistani corporate governance code

Corporate governance code of Pakistan

After the bankruptcy of Enron Government of Pakistan has also played its part for the protection of the stake holder's interest that are associated with the corporate sector of Pakistan. For this purpose the government of Pakistan has given instructions to the Securities and Exchange Commission of Pakistan (SECP) so that SECP will make its own code of corporate governance for the protection of interest of Pakistani stake holders that are associated with the Pakistani corporate sector. SECP has started its work for the preparation of corporate governance code for the Pakistani companies. In 2002 SECP was able to make a code of corporate governance for the Pakistani firms and this code of corporate governance is legally applicable on the Pakistani corporate sector from 2002. In this way the starting point for the corporate governance practices for the Pakistani corporate sector was 2002 and after that point all the Pakistani companies have to give the detail about their corporate governance practices to the stake holders with the help of their annual reports.

V. RAFHAN MAIZE PRODUCTS

Introduction

Rafhan Maize Products is a Pakistan company that is listed on the Karachi stock exchange. Maize is used as the basic raw material for the company in its manufacturing activities and the sold is selling various industrial products to its customers such as liquid glucose, industrial starches, gluten meals, dextrose and dextrin. The company is selling different food ingredients to the other companies such as Globe and Snowflake starches, Cerelose Dextrose Monohydrate, Rafhan Liquid Glucose, Golden Syrup and Rafhan Liquid Caramel. The company is also selling animal nutrition and health products such as Rafhan Maize Gluten Meals, Prairie Gold, Buffalo Maize Bran, Rafhan Maize Germ Cake and Enzose Hydrol (Annual Report Rafhan Maize Products, 2010).

Performance of Rafhan Maize Products

The performance of Rafhan Maize Products has improved in 2010 as compared to 2009. The net sales figure in 2009 was Rs. 11,428 million and in 2010 the net sales figure has increases and reached at the level of Rs. 13,913 million. The profit for the year figure in 2009 was Rs. 1,297 million and in 2010 the profit for the year figure has increases and reached at the level of Rs. 1,838 million. The EPS figure in 2009 was Rs. 140.43 and in 2010 the EPS figure has increased and reached at Rs. 198.99 (Annual Report Rafhan Maize Products, 2010). The above figures for net sales, profit for the year and EPS are representing that the performance of the Rafhan Maize Products has improved in 2010 as compared to 2009, which is due to the improved practices of corporate governance that has been implemented by the management of the company. On the basis of this reason I am accepting my hypothesis that the performance of the firm improve due to the better corporate governance practices

Compliance to Pakistani corporate governance code

Rafhan Maize Products Company limited is following the Pakistani corporate governance code. The following practices of the company are in line with the code of corporate governance

- The management always encourage the corporate governance practices and that is why in 2010 there were 8 independent non executive directors on the board of directors and 3 among them were representing the minority share holding
- Directors have also confirmed that they are serving in less then ten listed companies including Rafhan Maize Products because it is the one of the condition of the Pakistani corporate governance code
- The company has its own statement for business practices and ethics for all its employees and directors that is in line with the corporate governance code of Pakistan and it is duty signed by every employee as well as by the director
- The top management of the company has developed the corporate strategy, vision and mission statement and policies that are related with corporate governance practices of the company and the management is continuously updating its policies whenever required
- The decision for material transactions are taken by different board committees (remuneration committee, nomination committee and audit committee) in the company so that the chances of frauds can be eliminated on crucial events
- The board is conducting regular meetings and the important topics were discussed in these meetings so that the board can reach at the right decision. These meetings are normally presiding by the company Chairman and in his absence the Vice Chairman has to chair the board meeting. The agenda of the meeting is circulated to the directors seven days before the meeting and after the meeting the minutes were also duly signed and circulated by the company secretary. The discussion about the performance of the board of directors as well as the individual directors is also carried on in the board meetings
- The financial statements for the current year has been prepared according to the legal requirements and these statements were signed by the CFO and CEO and forwarded by the board of directors
- The executives of the company have provided the details of their interest in the company that they hold in the company. Moreover the executives of the company do not hold anything higher then their disclosed limit. Four non executives' directors are the members of the audit committee including the chairman of the committee. This action of the management will be helpful to complete the audit tasks without any sort of internal influence.
- Audit committee is working under the instruction of corporate governance code of Pakistan that is why the audit committee held its meeting at least once in the quarter prior and after the interim and final statements of the company. All the matters regarding the internal interim audit, external audit and selection of auditor is discussed in the meeting so that the audit work will be completed without any internal influence. Moreover the entire procedure is well stream lined under the requirements of the

Pakistani corporate governance code so that the company will meet all the requirements of auditing and audit committee. Related party transactions were also checked by the audit committee and the approval were given by the board of directors that all conditions of the Lahore and Karachi stock exchange has been met. Audit committee has also implemented a strong internal audit function based upon different internal checks. The internal auditors of the company have the required experience and qualification to carry on the internal audit operation of the company. Internal audit is a full time function of the company that is why the company has its full time internal audit staff

- The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan
- As it is mentioned in the Pakistani code of corporate governance that the external auditors of the company should not involve in any other contract with the company so that the independent of the external auditors can be ensure.

The above information has been taken from the web site and annual report of 2010 for Rafhan Maize Products Company limited. This information is providing the details about the corporate governance practices of the company. With the help of the above mentioned information it is clear that the board of directors of the company is putting their best efforts to ensure that they will adopt all the requirements of Pakistani corporate governance code so that the interest of the stake holders can be better protected.

VI. MITCHELL'S FRUIT FARM LIMITED

Introduction

Mitchell's is one of the oldest companies of Pakistan that is dealing in the food products. This company was established in 1933 by Mitchell but the name of the company was Indian Mildura Fruit Farms Ltd but when the country gets independence in 1947 the name was changed as Mitchell's Fruit Farm Limited. With the passage of time the company has performed better and better and the management has expanded the product line of the company but at the same time provided the best quality to the customers. The best quality products were produced by the company by purchasing the best quality raw material from the market.

With the help of the efforts of the management today the company is one of the market leaders in its sector. Moreover the company is able to sell its products to different other countries of the world such as USA, UK, Canada, Far East and Middle East (Annual Report Mitchell's Fruit Farm Limited, 2010)

Performance of Mitchell's Fruit Farm Limited

The performance of Mitchell's Fruit Farm Limited has improved in 2010 as compared to 2009. The net sales figure in 2009 was Rs. 1,255.06 million and in 2010 the net sales figure has increases and reached at the level of Rs. 1,376.9 million. The profit for the year figure in 2009 was Rs. 14.1 million and in 2010 the profit for the year figure has increases and reached at the level of Rs. 46. 5 million. The EPS figure in 2009 was Rs. 2.79 and in 2010 the EPS figure has increased and reached at Rs. 9.22 (Annual Report Mitchell's Fruit Farm Limited, 2010). The above figures for net sales, profit for the year and EPS are representing that the performance of the Mitchell's Fruit Farm Limited has improved in 2010 as compared to 2009, which is due to the improved practices of corporate governance that has been implemented by the management of the company. On the basis of this reason I am accepting my hypothesis that the performance of the firm improve due to the better corporate governance practices

Compliance to Pakistani corporate governance code

Mitchell's Fruit Farm Limited is following the Pakistani corporate governance code. The following practices of the company are in line with the code of corporate governance

- The management always encourage the corporate governance practices and that is why in 2010 there were 6 independent non executive directors on the board of directors and 2 among them were representing the minority share holding
- The decision for material transactions are taken by different board committees (remuneration committee, nomination committee and audit committee) in the company so that the chances of frauds can be eliminated on crucial events

- No director of the company is the member of any stock exchange that is operating in Pakistan as well as no director has defaulted in the past due to any loan that he has taken from any where. Moreover the directors are also the regular tax payers in Pakistan
- The board is conducting regular meetings and the important topics were discussed in these meetings so that the board can reach at the right decision. These meetings are normally presiding by the company Chairman and in his absence the Vice Chairman has to chair the board meeting. The agenda of the meeting is circulated to the directors seven days before the meeting and after the meeting the minutes were also duly signed and circulated by the company secretary
- The discussion about the performance of the board of directors as well as the individual directors is also carried on in the board meetings
- During the year there was not new appointment was made for company secretary, CFO and head of internal audit. But it is the duty of board of director to set policies regarding the appointment for these roles as well as to set the remuneration packages for these roles
- The report of directors for the current year has been completed in accordance with the requirements of the code of corporate governance and the main points has been disclosed as stated in the code
- The financial statements for the current year has been prepared according to the legal requirements and these statements were signed by the CFO and CEO and forwarded by the board of directors
- The executives of the company have provided the details of their interest in the company that they hold in the company. Moreover the executives of the company do not hold anything higher then their disclosed limit
- The legal requirements of the corporate and financial reporting has been met by the company as stated in the law and code of corporate governance
- The internal auditors of the company have the required experience and qualification to carry on the internal audit operation of the company. Internal audit is a full time function of the company that is why the company has its full time internal audit staff. Related party transactions were also checked by the audit committee and the approval were given by the board of directors that all conditions of the Lahore and Karachi stock exchange has been met
- Three non executives' directors are the members of the audit committee including the chairman of the committee. This action of the management will be helpful to complete the audit tasks without any sort of internal influence

The above information has been taken from the web site and annual report of 2010 for Mitchell's Fruit Farm limited. This information is providing the details about the corporate governance practices of the company. With the help of the above mentioned information it is clear that the board of directors of the company is putting their best efforts to ensure that they will adopt all the requirements of Pakistani corporate governance code so that the interest of the stake holders can be better protected

VII. ISMAIL INDUSTRIES LIMITED

Introduction

Ismail Industries Limited is one of the largest confectionery firms of Pakistan and it is involved in the manufacturing of various types of biscuits, snacks and confectionery by different brands such as Bisconni, Snackcity and CandyLand. The company is involved in the export of its products to the 30 different countries of the world including Australia, Europe, USA, Middle East and Far East regions. The company has the strong ties with different business organisations and customers who are living in these countries. This relationship of the company has established with the customers and other business partners because the company want to provide quality products to the customers as well as the top management is focused upon the customer satisfaction

Performance of Ismail Industries Limited

The performance of Ismail Industries Limited has improved in 2010 as compared to 2009. The net sales figure in 2009 was Rs. 3,602.28 million and in 2010 the net sales figure has increases and reached at the level of Rs. 5,219.66 million. The profit for the year figure in 2009 was Rs. 106.28 million and in 2010 the profit for the year figure has increases and reached at the level of Rs. 150.63 million. The EPS figure in 2009 was Rs. 4.42 and in 2010 the EPS figure has increased and reached at Rs. 6.62 (Annual Report Ismail Industries Limited, 2010). The above figures for net sales, profit for the year and EPS are representing that the performance of the Ismail Industries Limited has improved in 2010 as compared to 2009, which is due to the improved practices of corporate governance that has been implemented by the management of the company. On the basis of this reason I am accepting my hypothesis that the performance of the firm improve due to the better corporate governance practices

Compliance to Pakistani corporate governance code

Ismail Industries Limited is following the Pakistani corporate governance code. The following practices of the company are in line with the code of corporate governance in 2010

- The management always encourage the corporate governance practices and that is why in 2010 there were 4 independent non executive directors on the board of directors
- Directors have also confirmed that they are serving in less than ten listed companies including Ismail Industries Limited because it is the one of the condition of the Pakistani corporate governance code
- No director of the company is the member of any stock exchange that is operating in Pakistan as well as no director has defaulted in the past due to any loan that he has taken from anywhere. Moreover the directors are also the regular tax payers in Pakistan
- In 2010 there was no casual vacancy has occurred on the board so no new director has been appointed in the current year
- The company has its own statement for business practices and ethics for all its employees and directors that is in line with the corporate governance code of Pakistan and it is duty signed by every employee as well as by the director
- Audit committee is working under the instruction of corporate governance code of Pakistan that is why the audit committee held its meeting at least once in the quarter prior and after the interim and final statements of the company. All the matters regarding the internal interim audit, external audit and selection of auditor is discussed in the meeting so that the audit work will be completed without any internal influence. Moreover the entire procedure is well streamlined under the requirements of the Pakistani corporate governance code so that the company will meet all the requirements of auditing and audit committee
- Related party transactions were also checked by the audit committee and the approval were given by the board of directors that all conditions of the Lahore and Karachi stock exchange has been met
- Audit committee has also implemented a strong internal audit function based upon different internal checks. The internal auditors of the company have the required experience and qualification to carry on the internal audit operation of the company. Internal audit is a full time function of the company that is why the company has its full time internal audit staff
- As it is mentioned in the Pakistani code of corporate governance that the external auditors of the company should not involve in any other contract with the company so that the independent of the external auditors can be ensured. The company has also disclosed that the external auditors were not involved in any material contract with the company, which can result in the expiration of independence of the external auditors of the company
- The report of directors for the current year has been completed in accordance with the requirements of the code of corporate governance and the main points has been disclosed as stated in the code
- The financial statements for the current year has been prepared according to the legal requirements and these statements were signed by the CFO and CEO and forwarded by the board of directors
- The executives of the company have provided the details of their interest in the company that they hold in the company. Moreover the executives of the company do not hold anything higher than their disclosed limit
- The legal requirements of the corporate and financial reporting has been met by the company as stated in the law and code of corporate governance
- Four non executives' directors are the members of the audit committee including the chairman of the committee. This action of the management will be helpful to complete the audit tasks without any sort of internal influence.

The above information has been taken from the web site and annual report of 2010 for Ismail Industries Limited. This information is providing the details about the corporate governance practices of the company. With the help of the above mentioned information it is clear that the board of directors of the company is putting their best efforts to ensure that they will adopt all the requirements of Pakistani corporate governance code so that the interest of the stakeholders can be better protected.

VIII. CONCLUSION

The current study was based upon the Islamic corporate governance practices. The sample size for the current research study was the three Pakistani companies that are registered on the Karachi Stock Exchange

(Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited). The data has been collected for these companies from the web sites of these companies as well as from the annual reports of the companies for 2010.

The main features of the Western concept of corporate governance are to protect the interest of all the stakeholders of the firms that are linked with the company. This objective can be achieved by the firms with the help of separation of board of directors into two parts where some of the directors are responsible for the executive duties of the company while as the remaining directors are responsible for the governance duties of the firm so that the interest of stakeholders can be protected. This objective can be achieved in some countries (UK, USA and Canada) under one tier board and in other countries (Germany and France) two tier board.

Moreover the managers of the firm should use different sources of Islamic finance such as Mudaraba, Musharaka, Murabaha, Ijarah and Wakalah instead of using different other sources of debt finance because Islam is against the payment of interest. If the company generate debt finance then it has to pay the interest and the payment of interest is prohibited in Islam due to this reason the activities of the business will becomes illegal and the business will becomes Haram

In addition to this when the managers are financing the business with the help of debt financing that the agency cost of debt increases as well as the managers has to work as the agent of creditors. In this way there is a possibility that the business organisation will not able to perform all the activities under the teaching of Islam and the business organisation cannot act as the Islamic organisation.

Recommendations

At the end few recommendations are provided to the Pakistani regulatory authorities that are responsible for setting up the code of corporate governance in Pakistan as well as for the management of the three observed companies for improving their standard of corporate governance practice

- The regulatory authorities of Pakistan should try to make another code of corporate governance in the light of Islamic corporate governance practices such as the Tawhid, principle of property rights and the principles of contracts. Moreover the regulatory authorities should develop the Islamic code of corporate governance that will be in line with all the Islamic practices in the commercial as well as non commercial transactions of the company
- The regulatory authorities should make amendments in the Pakistani corporate governance codes because the current code was developed in 2002 and that code is not able to cater all the requirements of the current corporate world
- The code should also be in line with the ownership structure of the Pakistani companies as well as with the specific factors of the current Pakistani corporate sector
- The management of the companies (Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited) should try to improve their corporate governance practices so that the stakeholders will feel more confidence on the company and they will always ready to do business with these companies. For this purpose the management should try to follow the best practices of corporate governance that are developed by the researcher around the globe
- The management of the companies (Rafhan Maize Products Pakistan, Ismail Industries Limited and Mitchell's Fruit Farm Limited) should communicate all their corporate governance practices in the best way to the stakeholders so that the confidence of the stakeholders will improve and the company will get better opportunities in the future
- The managers should use different Islamic modes of finance such as Mudaraba, Musharaka, Murabaha, Ijarah and Wakalah instead of using different other sources of debt finance because Islam is against the payment of interest. Moreover debt financing will increase the agency problem as well as agency cost. In this it is better for the organisation that the managers should use Islamic modes of finance instead of debt finance

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