



Introduction to the Islamic Stewardship Assessment of Corporate Governance

Islamic Guidance

The **Islamic Stewardship Assessment** is a unique tool which determines a company's adherence to high-quality corporate governance practices derived from Islamic guidance. This assessment is designed to measure actual corporate behavior using external information about a company.

For Muslims, specific rules of Shariah instruction provide clear guidance to exclude companies from Islamic investments. The investment restrictions include *Riba* (avoiding the payment or receipt of interest, avoiding debt that creates highly leveraged companies), *Haram* (avoiding companies with prohibited activities, including alcohol, gambling, adult entertainment, and related immoral/illicit trades), and *Maisir* (avoiding gambling, including short selling and day trading). With many funds now available across the world with some form of company exclusion based on Shariah instruction, investors have a wide selection of products that apply the foundational requirements of Islamic guidance.

Islamic guidance is broader than the avoidance of specific activities and can impact additional elements of portfolio construction. Shariah incorporates standards of conduct and behavior for Muslims from the *Quran* and the *Hadith*. These include the concept of stewardship (*Amanah* & *Khalifah*) and promoting good works (*amr bil maruf*). Such desired standards of conduct and behavior exist, in varying degrees, in companies around the world.

The fundamental norm would be those standards of conduct associated with Islamic stewardship (*Quran* 9:105). Duties of loyalty and due care are associated with any stewardship undertaking. A principal purpose of Islamic stewardship is to provide *maslahah* or benefits to others and to society and to God's creation as part of living in worship of God. Acting as a steward should lead to justice (*Adl*), the goal set by God for the *Ummah* of humanity (*Quran* 3:104, 6:115). Stewardship also means that the assets and opportunities for profit of any company are to be held as an *amanah* or trust for the benefit of others (*Quran* 4:58). Although the *Quran* and *Hadith* embody hundreds of Islamic values, Magni focuses on the five values most relevant to companies and investing: *Amanah* (trust), *Adl* (justice), *Shurah* (consultation), *Ijtihad* (juristic reasoning), and *Rahmah* (mercy).

Shariah has five *Maqasid*, which is the Arabic word for goals or purposes. They are: respect for and promotion of life; respect for and promotion of

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good values and human morality (religion and civilization or din); respect for and promotion of knowledge and thoughtful conduct; respect for and promotion of property; respect for and promotion of family and progeny. These five *Maqasid* reflect the behavior of people and can be applied to the behavior of companies. The *Maqasid* have been adopted for a company's social responsibility and are used to assess relationships with stakeholders¹.

¹ In building this assessment, Magni started with its Sustainable Value Creation Assessment. The starting point is a secular corporate governance model derived from global leaders in corporate governance.