

DEVELOPING AN ISLAMIC CORPORATE CULTURE AT PERBADANAN KEMAJUAN EKONOMI ISLAM NEGERI PERAK (PKEINPk)

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Abstract

Perbadanan Kemajuan Ekonomi Islam Negeri Perak (PKEINPk) was set up as a semi-governmental body associated with the government of the state of Perak. Its mission and vision is to promote the Islamic economic development of the state of Perak. Its legal status has changed as a private company was formed and all the assets and all the employees were transferred to this private company. This new corporate structure allowed the organization to become more efficient and more competitive. Currently, PKEINPk has about 200 employees, assets of around RM 100 million and it generates a decent profit. Mr Tarmizi, the chief operating officer, has a clear strategy for achieving the company's vision and mission. The question is whether he can turn a sleepy medium size organization into a dynamic organizations that adhere to Islamic values. His aim is to recruit a HR expert from a large multinational based in Kuala Lumpur and persuade him to join a small company based in Ipoh. He cannot offer the salary or the glamor. So what will he say? How will the expert respond? In fact, isn't building a corporate culture based on Islamic values simply a dream?

Case Study

On the 16th of January 2015, Mr. Abu Mohamed had lunch with Mr. Tarmizi Taib from PKEINPk in a luxurious hotel in Kuala Lumpur. In all appearance, it was an ordinary meeting. Mr. Tarmizi is the chief executive officer (CEO) of Perbadanan Kemajuan Ekonomi Islam Negeri Perak (PKEINPk). Mr. Abduh Mohamed is a senior manager in human resource management, currently working in an oil company based in Kuala Lumpur. Tarmizi was trying to pull off a very difficult sales pitch. He was trying to persuade Abduh to leave his comfortable and enriching position and join PKEINPk, a medium-size company based in Ipoh, Perak.

In the meeting of the 16th January, Tarmizi gave an overview of PKEINPk. It was set up in 1985 as a semi-governmental body associated with the government of the state of Perak, one the thirteen states in Malaysia. Its mission and vision is to promote the Islamic economic development of the state of Perak. Over the years, its legal status has evolved. Quite recently, a private company was formed and all the assets and all the employees of PKEINPk were transferred to this private company. This new corporate structure allowed the organization to become more efficient and more competitive. Currently, PKEINPk has about 200 employees, assets of around RM 100 million and it generates a decent profit. Its core activities is oil palm plantations, a hospital and a dialysis centre in Ipoh. Future plans include venturing into real-estate. For many years, PKEINPk was a sleepy organization. The board of directors decided that it was high time to inject a sense of urgency and professionalism into the company so it persuaded Mr. Tarmizi to become the CEO in 2012.

Tarmizi is a colourful character. Always smiling and always joking, he nonetheless conveys the impression that he means business. Having spent twenty five years in a number of senior managerial positions in multinationals, Tarmizi decided that it was time for him to return

to Ipoh. The unique thing about PKEINPk was its vision and mission is based on developing the state Islamic economy. That is obviously quite a challenge but it is that spiritual dimension that appealed to Tarmizi.

Initially, Abduh was sceptic. Over the years, he had heard many people make lots of promises when it comes to business opportunities. In 90% of the cases, Abduh had been lied to. The meeting was arranged by a friend so he felt obliged to at least meet Tarmizi but he didn't really have any plans to change jobs. At the age of 38, he has a secure career and he earns RM 10,000 + a month. He is married, no children, and he has a nice house in Taman Setia Wangsa in Kuala Lumpur. He bought the house ten years ago for RM 300,000 and it is probably worth double the price now. The idea of leaving all of that to join a small outfit in Ipoh seemed quite unappealing. Like many Muslims who are born into Islam, Abduh has been struggling with his religious identity. Being born in Malaysia, his religious identity, his cultural identity and his ethnic identity had always been intertwined. He was posted in Iraq for five years and he witnessed the almost daily killings between Sunnis and Shias. He was shocked by this sectarian violence. It forced him to reflect on his multiple identities. What was religion? What was culture? What was ethnicity? As the only Malay working in a heavily guarded compound, he often felt alone and confused. He grew up knowing that Islam encouraged people to pray, fast, and give charity. How could Muslims fight one another in the name of Islam? So he started looking at Islam from a new perspective. As a practicing Muslim, he didn't doubt its fundamental message but he wanted to gain a better understanding of Islam from its original sources. He started to read about the history of Islam and its' development. He started listening to the talks of reputable Muslim scholars. Over the last few years, his perspective shifted in subtle ways. The idea of working in an organization whose core values revolve around Islamic principles had a certain appeal. At the end of the lunch on the 16th, Abduh did not reject the offer. He made it clear that he still had a lot of reservations but he wanted to have a second meeting, preferably in Ipoh so that he could visit the company's headquarters.

In the meantime, Abduh did some thinking. Organizational Development (OD) focuses on helping people and organisations change. However, Abduh was a great believer in the works of Chris Argyris and Peter Senge. Chris Argyris, in his *Organizational Traps*, argues that most efforts at change fail because top management wants change on the one hand but on the other hand, they don't want change. Putting it another way, most leaders consciously want change but unconsciously don't want change. As Chris Argyris puts it, "*Although we value openness, honesty, integrity, respect, and caring, we act in ways that undercut these values. For example, we say one thing in public and another thing in private. We then deny we are doing this and cover up our denial*" (Argyris, 2010, p. 2). This doesn't mean that change doesn't work. It does work but it requires a CEO that is very committed and sincere in wanting change. Peter Senge, in his *Fifth Discipline*, argues that profound change requires individuals in the organisation to change their mental model, their way of seeing the world. This requires deep insight and deep reflection. Without this change of the collective mental model inside the organisation, any change would be superficial and cosmetic. Abduh was wondering whether Tarmizi was aware that changing the corporate culture at PKEINPk would first require a profound shift in his personal mental model.

Two weeks later, taking advantage of a public holiday, Tarmizi and Abduh met again. The drive from Kuala Lumpur to Ipoh – almost two hours by using the North-South highway – was a reminder that Ipoh was quite far from Kuala Lumpur. Abduh was smiling as they drove

around Ipoh. The traffic was light and the town center was compact so he had no problems finding the PKEINPk building. Although modest by comparison to buildings in Kuala Lumpur, it appeared modern and well maintained. Tarmizi invited Abduh for lunch and they had a long discussions at a reputed Indonesian restaurant.

The first topic of discussion was the challenge of running a medium enterprise. Tarmizi explained that large multinationals typically have good people and good processes. Medium size companies have good people but no processes. He explained, *“Most of my job at the moment is transferring the good practices and the business processes of a multinational to PKEINPk”*. To do that, Tarmizi persuaded a friend – Mr. Ridhwan Abdullah - from another Malaysian multinational to join as the new chief financial officer (CFO). Before Ridhwan’s arrival, nobody really knew the actual cost structure of the organization. Management roughly knew that they were making money. But nobody knew which activities made money and which activities lost money. So Ridhwan set about figuring the details. Tarmizi explained, *“It’s difficult to imagine but in most medium-size companies, management doesn’t understand the cost structure. A lot of Ridhwan’s work involves educating the staff. Many employees are not sure about the basics so he has to explain to them the different types of costs and how to monitor them. You can’t do that sitting at your desk and giving instructions. You have to go the ground and explain complicated things in simple language. There is a lot of mentoring and educating that needs to be done.”*

The second topic of discussion was the long-term strategic direction of the company. Tarmizi explained that its current focus is mainly on palm oil plantation, real-estate and hospital / dialysis centres. However, the business model is slightly different from other centres due to PKEINPk historical relationship with the state of Perak. Mostly, they focus on helping low-income groups that would not normally have access to healthcare. For example, poor people living in Perak who need a dialysis treatment cannot afford it. However, they can get vouchers from *Majlis Agama Negeri Perak*, the state religious department. They can use these vouchers in PKEINPk’s hospital or in dialysis centres in Ipoh. Essentially, PKEINPk has a niche market guaranteed by the state of Perak. Tarmizi explained proudly, *“In a few months, we will open a new dialysis centre in Taiping, an hour’s drive from here. Each dialysis machine will be sponsored by a large corporation. The whole centre will be based on the principle of waqaf (Islamic endowment).”* When discussing business strategy with Tarmizi, it was clear that he had a good answer to every question and every answer seemed to involve giving customers a better deal than they are getting currently. A major concern though was the risk profile of the group. He explained, *“Traditionally, the majority of our business was in palm-oil estates. That is a business that requires a long-term investment, with returns between 10 percent and 14 percent. It is however a low risk business. The board of directors is thinking of shifting towards real-estate because the returns are higher. That worries me. My job is not simply to increase the profitability of the group, I need to manage the business risks of the group”*.

Abduh then asked Tarmizi what motivated him to join PKEINPk. Tarmizi smiled. *“Two things”*, he said. *“First, it’s easy to be a manager in Kuala Lumpur. But is difficult to become a CEO because there is only one CEO per organization. However, if you develop your skills in multinationals, you can then easily become the CEO of a medium size company. So I wanted to be a CEO. Think about it. We have a good business model. I already got a good chief financial officer so our financial situation will improve. I just need a good HR manager. Your main job would be to fine tune the processes in HR and to work on building an Islamic*

corporate culture. In five years from now, I will retire. Ridhwan doesn't want to be CEO. He is of my age anyway. But you are 38 now. By the time I retire, you would be mid-40s. That's the best age to become a CEO. So if you join us and you perform, you would be the first in line for the job. Of course, the decision will be made by the board of directors so I cannot make any promises."

Abduh smiled. *"So what is the second thing that motivates you?"* Tarmizi was quiet for a while and he then said, *"I want to leave a legacy"*. He continued, *"Islam tells us that we will all die and that we need to use this life to prepare for our death. At the end of the day, we are providing jobs for people. We provide medical treatment at a cost poor people can afford. That makes me feel good. Many organizations destroy things in the pursuit of efficiency and profit. I have nothing against efficiency or profit but I do believe that every person and every organization should try to make this world a better place. The older I get, the more this motivates me."* So Abduh commented, *"So you are motivated by "amal jariah". There is nothing new with that. I can stay in Kuala Lumpur and build my legacy there"*. Tarmizi replied, *"I beg to differ. When people think about leaving a legacy, they often think about building another institution – like an orphanage – and they often assume that they can only do so after they retire. My understanding is that everything I do today is part of that legacy. Think about Ridhwan's legacy. By figuring out the cost structure of PKEINPk and changing the business processes, he ensures the long-term financial stability that makes it possible for us to provide medical treatment for the poor. In Kuala Lumpur, the best you can do is squeeze more work out of your people so that a wealthy organization becomes wealthier. The social benefits are totally different."*

Moving quickly to another topic, Tarmizi explained the advantages and disadvantages of living in Ipoh. He explained, *"The cost of living in Ipoh is 30 percent lower than in Kuala Lumpur. The salary in Ipoh reflects that. For example, a doctor in Kuala Lumpur can earn RM 200,000 per month. In Ipoh, the salary varies from RM 30,000 to RM 60,000 a month. We can only offer our doctors RM 30,000 so retaining them is a challenge. On the plus side, you might spend two hours in traffic jams in KL. In Ipoh, you might only waste 20 minutes."*

Abduh then asked the big question. *"If I join PKEINPk, what would be my main job?"* Tarmizi thought for a while and spoke slowly. *"I need you to change the corporate culture by focusing on Islamic values. We have tried but it's a slow process. When I spoke to friends in KL, a few people mentioned your experience in changing the corporate culture. There are two aspects to this. One is idealistic; we are Muslims and developing a successful organization based on Islamic principles would be something that we would all be proud of. One is practical; we pay our doctors RM 30,000 a month. Outside the medical profession, that's a lot. You can buy a nice house, drive a BMW and still have lots of money left over with that kind of money. But in the medical profession, we are at the lower end of the scale. Other hospitals in Ipoh can pay them RM 60,000 a month. In Kuala Lumpur, they can get RM 200,000 a month. So we need Muslim doctors who want to be doctors to help the poor. Not everybody would agree to "lose" RM 30,000 to RM 170,000 every month."* Tarmizi continued. *"We have identified a couple of consultants who can help us update our strategic plan. The main focus will be on expanding in real-estate and developing the Islamic corporate culture. It would be your responsibility to manage all the HR operations. But as far as the board is concerned, your credibility will depend on your ability to make significant progress in terms of developing the Islamic corporate culture."*

At the end of the lunch, they took a tour of the hospital and the dialysis centre. Abduh noted that every machine in the dialysis centre was fully utilized. The patients were all in their 40s, 50 and 60s. Tarmizi explained, *“Patients needing treatment must come three times a week. Each session lasts around four hours. Even with government subsidy, a treatment costs about RM 2,000 a month. For people living on a pension of about RM 1,000, that is obviously impossible. Sometimes family members can help with the monthly payments. In some cases, they are alone. Without us, I don’t know what they would do....”* Abduh replied, *“I know. My father is currently undergoing regular dialysis treatment in Seremban.”*

Abduh continued, *“Well, Mr. Tarmizi, I have a lot of thinking to do. With regards to developing an Islamic corporate culture, I don’t think that is a big problem. My observation is that many organizations in Malaysia use a training paradigm. Training assumes a pre-packaging of assumptions, knowledge and emotions. But Japanese companies use a coaching approach. There are no prior assumptions about knowledge or emotions. My understanding is that to develop an Islamic corporate culture, supervisors and managers need to shift from a training paradigm to a coaching paradigm. That isn’t too difficult.”*

Tarmizi said, *“I have no idea what you just said but it sounded good. So you are interested?”* Abduh smiled, *“I need a couple of weeks to think about it. One way or another, I will call you in two weeks’ time.”* After leaving Ipoh, Abduh decides to visit you. He explained all of what has happened and asked you for your advice.

Discussion Questions

- 1) Identify the strengths and weaknesses of PKEINPk.
- 2) Tarmizi’s main argument is that as long as medium enterprises like PKEINPk incorporate the business processes of large multinationals, they will have a competitive edge. Discuss the advantages and disadvantages of that point of view.
- 3) In his reflections, Abduh was concerned whether Tarmizi would be willing to change his own mental model. Or was it a case that Tarmizi consciously wanted change but unconsciously wanted to keep the status quo. By relying on the dialogue in the case, decide whether Tarmizi is serious about changing himself and changing the organisation. Justify your answer.

References

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- Senge, P. M. (1990) *The Fifth Discipline: The Art and Practice of the Learning Organisation*. New York: Currency.