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SHARI'AH GOVERNANCE PRACTICES IN CREDIT COOPERATIVES IN MALAYSIA¹

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Abstract

Cooperative sector governance is instrumental in ensuring the effectiveness, responsibility, and accountability in both conventional and Shari'ah-compliant cooperatives. This study examines Shari'ah governance (SG) arrangements within the cooperatives in Malaysia. The objectives of this paper are to explore the application of SG in the cooperative sector in Malaysia and to evaluate the adequacy of SG adoption in cooperative. This study uses qualitative methods where the data are collected using focus group discussions and in-depth interviews with regulators, experts, and the governance organs of the cooperatives. The study focuses on credit cooperatives that have been listed in the 100 Best Cooperative Directory issued by Suruhanjaya Koperasi Malaysia (SKM) annually from 2012 to 2016. The findings from thematic analysis on interviews conducted indicate that the first objective, most respondents agreed that cooperatives should be operated based on the objectives of its establishment. The findings on the adequacy of adoption of SG in Shari'ah-compliant cooperatives indicate that the practice is at an infancy stage, with plenty of support and motivation are needed to ensure effective and efficient implementation of SG. Emergent findings from the interviews reveal that the Islamic attributes are crucial for a cooperative's SG organs such as Islamic accountability, Shari'ah mindset, Islamic culture, awareness and readiness, manpower competencies and cooperation (ta'awun). It is vital for the SG organs to have such attributes in order to foster awareness among them to be more responsible and willing to adopt good SG practices. The observation of good SG practices in the cooperative sector in Malaysia can help the cooperative movement to positively grow and contribute equitably to community.

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1.0 Introduction

Most people see the cooperative society as a form of social enterprise as well as an organisation with the potential to help the public. Non-governmental organisations (NGOs) including cooperatives are designed to benefit low-income groups most. The importance of this sector and the increased reliance on public funds has also attracted the public's attention to this sector.

According to Birchall², cooperatives are a significant part of the global economy. 1,465 cooperatives have over USD100 million of annual turnover, showing that the cooperative model is not just for small business. These large cooperatives cover many sectors including agriculture and food, wholesale and retail trade, industry and utilities, banking, insurance, and health and social care. The largest number are found in the USA, followed by France, Japan, Germany, Netherlands, Italy, Spain, Switzerland, the UK, and Finland³.

However, the core competencies of cooperatives require further research to ensure the effectiveness and efficiency of its policy framework. Macroeconomic stability should be the targeted objective to achieve financial viability and sustained economic development. Alexander² finds that cooperatives are perceived as being central to the economic development strategies in several countries especially among African countries.

In Malaysia, the cooperative society was first established in 1922 to protect the welfare of rural peoples. The establishment is not only to improve the wellbeing of its members but also to eradicate the poverty and act as a distribution tool of national wealth. With the aim to help its members, cooperatives need to accelerate their

² J. Birchall, *Building Communities: The Co-operative Way*. (Routledge Revivals, 2014).

³ B. R. Alexander & S. Vicari "Understanding Rural Co-operative Resilience: A Literature Review". A joint working paper by the Open University and the Co-operative College. *IKD Working Paper* No. 64. 15, (2013, 15 Feb.).

performance to transform the nation into a high-income nation by the year 2020⁴. The development of *Shari'ah*-compliant cooperative sector, on the other hand is on rise from the spill-over effect of rapid growth of Islamic finance industry in Malaysia predominantly from 1980s to the current time. Islamic banking and finance industry, arguably has achieved its full potential in Malaysia. Therefore, it is time for regulators to divert attention to non-banking institutions so that these institutions are also given the opportunity to develop and contribute to the value-added current banking and financial products offered by IFIs.

One of the aspects that the non-banking institutions such as cooperatives, may learn from Islamic banking and finance industry is *Shari'ah* Governance. *Shari'ah* Governance is defined as “a set of institutional and organizational arrangements through which Islamic financial institutions ensure that there is an effective independent oversight of *Shari'ah* compliance over the issuance of relevant *Shari'ah* pronouncement, dissemination of information and an internal *Shari'ah* compliance review.”⁵ There are three main aspects that Islamic Financial Institutions (IFIs) must observe in *Shari'ah* Governance. Firstly, the IFIs are required to have an organ or body that is responsible on *Shari'ah* Governance. The main organs are the *Shari'ah* Board, Board of Directors and Senior Management of the IFIs. Secondly, the IFIs must ensure that this body exercises independent authority to supervise and confirm *Shari'ah* compliance aspects in the IFIs. Thirdly, the IFIs must have an internal process to ensure *Shari'ah* compliance which includes *Shari'ah* review and audit, *Shari'ah* pronouncement and dissemination of information on *Shari'ah* Governance. The main objective of *Shari'ah* Governance is to ensure overall *Shari'ah* compliance operations of the IFIs. *Shari'ah* compliance shall not be compromised by the IFIs or otherwise they will be subjected to serious penalty.⁶

⁴ www.skm.gov.my

⁵ IFSB, (2009), 2.

⁶ Subject to the provision of Islamic Financial Services Act 2013 (IFSA), which is the main legislation for the Islamic Financial Institutions in Malaysia, any Islamic Financial Institutions that do not comply with the *Shari'ah* requirements will be subjected to penalty of imprisonment of 8 years and a fine of RM25million, or both. This is provided in Section 28 of

In the Malaysian context, Central Bank of Malaysia has issued Guidelines on *Shari'ah* Governance Framework (SGF) in 2010 requiring the IFI's to establish a sound and robust *Shari'ah* governance structures, processes and arrangements in ensuring that all its operations and business activities are in accordance with the *Shari'ah*. The SGF provides a comprehensive guidance to the board, *Shari'ah* committee and management of the IFIs in discharging its duties in matters relating to *Shari'ah* and outlines the functions relating to *Shari'ah* review, *Shari'ah* audit, *Shari'ah* risk management and *Shari'ah* research. The Guidelines also identifies that the essential key functions or key organs in the *Shari'ah* governance framework are the board, the *Shari'ah* committee, management and *Shari'ah* compliance and research functions. The IFIs are to set out the policies on accountability and responsibility of every key functionary involved in the implementation of SGF.

It has been almost 8 years that the IFIs have adopted the SGF successfully; and that the SGF has been recognised as one of the factors that push performance of the IFIs.⁷ With good practice of SGF, the IFIs has proven its excellence in the industry. This is however, not the case for cooperatives institutions that are still plagued with the issues on effective administration and good governance. For the cooperatives that are operating based on *Shari'ah* principles, they are also intrigued with the issues on *Shari'ah* compliance and *Shari'ah* governance. As such, initiatives have been taken by the SKM being the regulator for the cooperatives to adopt the best practices of IFIs.⁸

IFSA.

⁷ R. Hassan *et.al* "An Empirical Study of the Effectiveness of the *Shari'ah* Governance Framework (SGF 2010)", *International Shari'ah Research Academy for Islamic Finance* (2014); H. Hamza, "*Shari'ah* governance in Islamic banks: effectiveness and supervision model", *International Journal of Islamic and Middle Eastern Finance and Management*, 6(3), (2013), 226-237; N. M. Haron, R. Hassan, "*Shari'ah* supervisory board characteristics effects on Islamic banks' performance: Evidence from Malaysia", *International Journal of Bank Marketing*, 36(2), (2018), 290-304.

⁸ M. I. Itam@Ismail, R. Hassan and S. M. Alhabshi, "*Shari'ah* Governance Framework for Islamic Cooperatives as an Integral Social Institution in Malaysia, Intellectual Discourse, 24, (Special Issue), (2016), 477-500.

For this purpose, SKM issued *Shari'ah* Governance Guidelines (GP28) in July 2015 to be implemented by all credit cooperatives with turnover at least of RM5 million in a year. In line with the emphasis of former SKM Executive Chairman, Datuk Lamien bin Sawiyo on the introduction and enforcement of GP28, stated that a clear understanding of the need and implementation of SG between cooperatives should be applied to all cooperative governance components. The components include members, SCs, internal audit and management committees to achieve GP28 implementation. GP28 is important for cooperatives in the effort to enhance *Shari'ah* as well as reinforcing the identity and progress of each component of governance in forming a more advanced and competitive cooperatives that operate with integrity. Effort is seen as a new dimension for empowering governance and promoting *Shari'ah* in the cooperative sector in its capacity. The concerns for *Shari'ah*-compliance have introduced a new dimension of governance that falls under the CG framework that is unique to the Islamic system of financial management.

Similar to other organisations, the cooperative sector is also exposed to governance issues. The governance issues of an organisation include corporate fraud cases, abuse of management power and lack of social responsibility. On the SG aspects, implementing *Shari'ah* rules in the cooperatives is still weak mainly due to the lack of experience of the governance organs and expertise at the operational level. In the cooperative realms, there is positive acceptance of Islamic principles and concepts in the organisation where most of the credit cooperatives have started promoting Islamic financial products, namely deposits, investment as well as financing. Thus, it is imperative for research that examines the application of SG in the cooperative sector in Malaysia and that evaluates the adequacy of SG adoption in cooperative. Another motivation for the study is scarce academic and industry discourse of SG despite the importance of cooperative sector for Malaysia's economy and its positive role to complement Islamic finance industry, which Malaysia is the main player in the global arena.

In this study, the researchers focused on credit cooperatives, as it is the largest cooperative in Malaysia. Also, the *Shari'ah* guidelines

issued by the Malaysian Cooperative Commission (SKM) are also focused on its implementation in credit function cooperatives. In fact, the early establishment of a cooperative in Malaysia began with the function of granting credit to its members. This study is relying very much on the corporate governance (CG) study which has been well established as a reference to be adopted and implemented in a cooperative sector where is necessary. Even though corporation and cooperatives are having different objectives but there is a need for cooperatives to be managed professionally. Furthermore, since there is no segregation between the conventional and Islamic cooperatives in Malaysia, the term “Islamic cooperatives” is always refers to those cooperatives, which offer Islamic products to its members.

2.0 Research Methodology

Qualitative research is, by its nature, an exploratory work that investigates new or rare social phenomena about which there is little information beforehand. Thus, this type of study is an inductive approach and it is undertaken to comprehend the relevant phenomenon in depth by applying techniques such as observation and also extensive interviews⁹. Creswell¹⁰ added that this approach can be used to get a new perspective on something that is already known and to get a more in-depth information dishonor difficult to be expressed quantitatively. Exploratory research design is, therefore, considered as an appropriate research design for this study in obtaining extensive information of *Shari'ah* governance practices in cooperative sector.

On the other hand, FGD is another method used in this study. It involves the participation of experienced members regarding the issues being reviewed. This method has been strongly supported by Merriam¹¹ who explains that the use of focus groups as a social

⁹ U. Sekaran, *Research Methods for Business: A Skill Building Approach*. 4/e. (John Wiley & Sons, 2003).

¹⁰ J. W. Creswell, *Qualitative Inquiry and Research Design: Choosing Among Five Approaches*. 2/e. (Thousand Oaks, CA: Sage, 2007).

¹¹ S. B. Merriam, “*Qualitative Case Study Research. Qualitative Research: A Guide to Design and Implementation*”, (John Wiley & Sons, 2009), 39-54.

science research method could also be detected in the mid-twentieth century.

The participating members will actively interact with each other to address the issues raised during the discussion. This can encourage the exploration of experiences and new ideas related to research topics. One of the advantages of FGD is to highlight the uniqueness of human experience that cannot be controlled or measured using quantitative methods. This is because it involves the way of thinking, ideas and views from the participants' words, and not from researchers.

The reasonable number of participants for an FGD ranges from minimum of six and maximum of either six, ten or twelve, according to opinions of Krueger and Casey¹², Morgan¹³, Langford et al.¹⁴, Bernard¹⁵ and Nelson¹⁶. Krueger¹⁷ and Onwuegbuzie et al.¹⁸ accepted minimum of three participants up to six participants for FGD. The study starts with the FGD method to gain a deeper understanding of the selected study. The FGD is a strategy to understand the attitudes and behaviours of the participants. It helps to collect preliminary data or prefix feedback on the study. Hence, this method is suitable to look for more in-depth ideas on matters to be investigated. Post the FGD sessions, a series of interviews were held with relevant parties. Table 1 highlights the lists of informants:

¹² R. A. Krueger & M. A. Casey, *Focus Groups: A Practical Guide for Applied Research*. 3/e. (Thousand Oaks, CA: Sage Publications. 2000).

¹³ D. L. Morgan, *The Focus Group Guidebook*. Vol. 1. (Sage publications. 1997).

¹⁴ B. E. Langford, G. Schoenfeld & G. Izzo, "Nominal grouping sessions vs. focus groups", *Qualitative Market Research*, 5(1), (2002), 58-70.

¹⁵ H. R. Bernard, *Research Methods in Anthropology: Qualitative and Quantitative Approaches*. (Walnut Creek, CA: Alta Mira Press, 1995).

¹⁶ R. Nelson, "Knowledge and Innovation Systems". *Knowledge Management in the Learning Society*, (2000), 66-74.

¹⁷ R. A. Krueger, *Focus Groups: A Practical Guide for Applied Research*. (Thousand Oaks, CA: Sage Publications, 1994).

¹⁸ A. J. Onwuegbuzie, W. B. Dickinson, N. L. Leech & A. G. Zoran, "A Qualitative Framework for Collecting and Analyzing Data in Focus Group Research". *International Journal of Qualitative Methods*, 8(3), (2009), 1-21.

Table 1: List of Informants of the Research

	Respondents	Number of respondents	Medium	Position in cooperative
1.	Representative of regulator	1	In-depth interview	The Head of <i>Shari'ah</i> Department SKM, KL
2.	Cooperatives experts	4	In-depth interview	Assistant Director SKM Auditor of SKM CEO of Credit Cooperative General Manager of Credit Cooperative
3.	Credit cooperatives governance organs	9	Focus group discussion	BOD Management Internal auditor
4.	Credit cooperatives governance organs	22	In-depth interview	BOD Management Internal auditor <i>Shari'ah</i> committee

The selected respondents in the study covered various backgrounds to obtain extensive and detailed data from various perspectives. Overall, there were 19 structured semi-structured interview questions were formed to meet all research objectives. The number of respondents involved was sufficient after the feedback received for each interview question reached saturation level.

3.0 Discussion and Findings

The themes arise from FGDs and interviews in the current practices of SG and the adequacy of SG in cooperatives are presented in Table 2.

Table 2: List of Themes from Focus Group Discussions and Interviews

Research Objectives	Regulator (In-depth Interview)	Experts (In-depth Interview)	Governance Organs (FGD)	Governance Organs (In-depth Interview)
To explore the current practices of governance and adoption of SG in Malaysia's Cooperative Sector	Objective of cooperation Roles of governance organs Principles of cooperatives	Objective of cooperative. Governance practices Roles of governance organs New product development Rules and regulation	Source of information. Current governance policy and practices. Islamic products in cooperatives	Objective of cooperative. Governance practices Roles of governance organs. New product development Rules and regulation
To evaluate the adequacy of SG adoption in cooperatives	Awareness and readiness	Improvement in cooperatives	<i>Shari'ah</i> concepts and practices in cooperatives	Improvement in cooperatives

Table 2 highlights that for the first objective, most respondents agreed that cooperatives should be operated based on the objectives of its establishment. For example, a credit cooperative should function to give credit to its members. To ensure that a cooperative is functioning properly and appropriately, it requires the commitment of all parties, in particular, the regulators and governance organs of cooperatives. In this unique cooperative setting, the main organs responsible for each cooperative comprise the BODs, the management, and the internal auditor. All these key persons should be responsible to carry out their duty diligently. Strategic planning and the ability to adhere to good governance as provided by SKM in the general principles of governance¹⁹ (GP27) not merely guarantee the *Shari'ah*-compliant status of a product but it reflects the readiness and willingness as well as seriousness of the cooperative in practicing *Shari'ah* governance.

¹⁹ The general principles of cooperative governance in Malaysia (GP27).

Basically, most cooperatives operate on the basis of GP27 and some cooperatives have begun to practice the Shariah governance guidelines²⁰ (GP28). Awareness in adopting of GP28 is because they offer Islamic financing involving Islamic contracts. The guidelines prepared by the SKM are the main source of reference by cooperatives in Malaysia. These guidelines are very crucial for developing and introducing a new product in the cooperative.

As for the second objective, as indicated by the themes emerged as reported in Table 2, the SG adoption and practices are still in the infancy stage. Support and motivation in various forms are needed to ensure the implementation is effective and efficient. However, the implementation may not be so difficult to those cooperatives which have been practising *Shari'ah* rules or applying Islamic values in their operation. This initiative indirectly creates a *Shari'ah* culture and environment in the cooperative, which encourages positive minds as well as promoting good cooperation (*ta'awun*) among the governance body.

The respondents also agreed that effective and efficient organisation of the cooperatives needs to be embedded with a strong rapport between top management and subordinates. This synergy simultaneously builds robust governance for the organisation²¹. It is suggested that senior executives of cooperative should be part of a board and be responsible for its leadership. The members of the board and management shall have the skills needed,²² possess the required managerial skills and technical knowledge²³.

It is interesting to find that from the interview sessions, the respondents viewed that among the forms of incentives that are needed to improve and enhance the cooperatives, particularly in ensuring good Islamic governance practices are:

²⁰ The *Shari'ah* governance guidelines of cooperatives in Malaysia (GP28).

²¹ H. Harun & N. I. Abdullah, "Enhancing the Shariah Governance Framework for Malaysian IFIs through Effective Management Strategies". *International Journal of Public Finance*, 2(1), (2017), 63-80.

²² S. Sivertsen, "Governance Issues seen from a Management Perspective", in *Review of International Co-operation*, 89, 4, (1996), 34-36.

²³ B. Branch, & C. Baker, "Overcoming Governance Problems: What Does It Take" in *Inter-American Development Bank (IDB) Conference on Credit Unions*. (Washington DC: IDB, 1998).

- i. The staff and management of the cooperatives need to be rigorously exposed to knowledge on SG. Courses on SG need to be held for them to enhance their understanding on the subject matter.
- ii. To enhance the administration and management of the cooperatives, the staff and management need to be imparted with good knowledge on Islamic leadership and Islamic accountability. Relevant courses and trainings need to be organised for them.
- iii. The main organs that oversee SG matters should be rewarded by allocating special allowance or fixed remuneration for them.
- iv. The regulator's support to SG initiatives is significantly important. This can be in the form of sponsorship from the regulator to hold Shariah courses in the respective cooperatives.
- v. There should be initiatives by the regulator and/or the management of cooperatives to ensure good understanding and continuous learning on SG. One of the initiatives could be in the form of education fund or scholarships for the staff to further studies on the topic relating to SG.

4.0 Emergent Findings

Emergent findings refer to new data or new themes that arise when conducting a thematic analysis of raw data in qualitative research designs. In a coding process, the researcher will usually use familiar codes based on the variables found through reading in previous studies. Emergent finding occurs when the researcher discovers other themes that can be claimed as new knowledge.

The following emerging findings are found during the coding process of respondents' interviews data. These findings are new and highly relevant in the cooperative setting that can serve as a set of values for SG practices for cooperatives. The relevant emergent findings and/or values are:

- i. Islamic accountability
- ii. Islamic culture
- iii. Awareness and readiness
- iv. Mutual cooperation (*ta'awun*)
- v. Islamic Mindset
- vi. Manpower competencies

The above aspects are the important values in Islam that

cooperative can adopt towards developing its own SGF. Indeed, cooperatives, by its nature, share many of the social values of Islam. From the Islamic point of view, the formation of cooperatives is encouraged and considered legitimate in Islam where the condition of the establishment of the covenant is based on the willingness; its purpose is justified according to Islamic law without elements prohibited by Shariah such as usury, oppression and fraud²⁴.

As the provider of Islamic products and services to their members, not only the cooperatives must adhere to the principles of Islamic economy and *mu'amalat* such as free from interest and other prohibited elements, as well as application of profit and loss sharing, but they must also promote the above values and principles to create an efficient, fast-growing organisation with the potential to greatly benefit its members as well as the society.²⁵

4.1 Islamic Accountability

Accountability according to Islam states that every Muslim is responsible for all things and practices done to Allah (SWT)²⁶. Allah SWT says in the Holy *Qur'an*:

“So, whosoever does good equal to the weight of a speck of dust shall see it. And whosoever does evil equal to the weight of a speck of dust shall see it.”²⁷

In Tafsir Ibn Kathir²⁸, it is recorded from ‘Adi that the Prophet SAW said,

“Fear (ward off) the Fire, even if by giving half a date in

²⁴ A. H. Buang, “Koperasi Secara Islam Dalam Kerangka Perundangan Malaysia”, *Jurnal Syariah*, Bil.12, (2004), 2.

²⁵ M. M. Mohd Aini, S. E. Yaacob & A. D. Salleh, “Koperasi di Malaysia: Pencerakinan Sejarah & Hukum Pelaksanaannya”, *Isu Syariah & Undang-undang Siri 19. (Penerbitan Jabatan Syariah Fakulti Pengajian Islam UKM, (2016).*

²⁶ S. O. Syed Agil, “Accountability of Corporate Managers” in Syed Othman Alhabshi *et al.* (Eds). *Islamic Management for Excellent: Revitalizing People for the Future*. (Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), 1998), 49–54.

²⁷ *Surah Az-Zalzalah*, 99: 7-8; *Tafsir Ibn Kathir* (Vol.10, 2003)

²⁸ *Tafsir Ibn Kathir*, Vol.9, (2003)

charity, and even by saying a single word of good.”²⁹

In the Sahih, he (‘Adi) narrated (from the Prophet SAW):

“Do not under rate any good act, even if it is offering drinking water from your bucket to one who is seeking a drink, or meeting your brother with a cheerful face”³⁰

According to Syed Agil ³¹ (1998), this Qur’anic verse summarises three characteristics of accountability in Islam:

- i. Every person has the accountability for any bad deeds done regardless whether it is real and hidden or small or large
- ii. Man should feel responsible for every practice only to Allah SWT
- iii. Every good or bad practice will be rewarded with the reward or punishment that is appropriate

The value of accountability can be applied through *aqidah*, *ibadah* and *akhlak*. In the aspect of *aqidah*, the value of accountability reinforces the holdings of *aqidah* in a person. Confidence in the existence of God Almighty, Who always sees every servant’s action, will induce a person to carry out his responsibility as a *khalifah* with full trust.

“He knows what goes into the earth and what comes forth from it, and what descends from the heaven and what ascends thereto. And He is with you whosoever you may be. And Allah is the All-Seer of what you do.”³²

According to Tafsir Ibn Kathir³³, Allah SWT is watching over you and witnessing your deeds wherever you may be, on land or at sea, during the night or the day, at home or in open areas or deserts. All of that is the same before His knowledge and all of it is under His sight and hearing. He hears your speech and sees where you are. He knows your secrets and your public statements.

²⁹ Fath al-Bari, 3:332

³⁰ *Sahih* Muslim, 4:2026

³¹ S. O. Syed Agil, “Accountability of Corporate Managers”, op cit., 49–54.

³² *Surah al-Hadid*, 57: 4

³³ *Tafsir* Ibn Kathir, Vol.9, (2003)

In the aspect of *ibadah*, the sense of responsibility to Allah SWT also affects the quality of such worship. Accountability or sense of responsibility towards God has a positive impact in line with the purpose of life and the creation of man, i.e., worshipping Him. This helps in developing better human capital for an organisation³⁴. From the point of *akhlak*, accountability can create trustworthy individuals in carrying out their duties and responsibilities. With this, cooperation and tolerance practices are easier to nurture among workers within the organisation.

Accountability refers to the obligation of an individual or an organisation to carry out its activities, accept responsibility for them, and disclose results in a transparent manner.³⁵ It also includes responsibility for money or property entrusted to them. An organisation like cooperatives should have its mechanism to determine the goals and direction to be achieved and what action needs to be taken to make positive changes towards achieving those goals. Leaders of the organisation could hand over responsibility to employees so that they feel accountable to the given task and feel valued. The success of employees in executing their responsibilities will encourage and inspire them to continue to work and contribute positively to the cooperatives or organisation.

4.2 Islamic Culture

Islamic culture can influence the application of SG in cooperatives. Developing an organisation without regard to economic systems and culture is impossible because economic systems and culture are correlated. It has been found that during interviews for data collection, some participants are hesitant to provide a definition or view of what is meant by *Shari'ah*. This scenario is quite surprising because the participants involved are Muslim. It is believed that practising Islamic culture in a cooperative is aligned with its original nature of establishment. Islamic culture also can impart its staff and

³⁴ N. M. Nik Hassan, *An Islamic Paradigm in Economics: Vision and Mission*. (IKIM, 2012).

³⁵ E. Malekian & A. A. Daryaei, "Islamic values forward into better corporate governance systems" in *International Conference on Business and Economic Research*, (2010).

governance organs to the proper understanding of Shariah and apply its principles accordingly.

Islamic culture should be adopted as the organisational culture³⁶ of the cooperatives that represents the collective values, beliefs and principles of organisational members and is a product of such factors as history, product, market, technology, strategy, type of employees, management style, and national culture; culture includes the organisation's vision, values, norms, systems, symbols, language, assumptions, environment, location, beliefs, and habits³⁷.

Denison *et al.*³⁸ found that culture contributes to the success of the organisation. The company's culture and best practices on CG for example, is acknowledged to be the essential factor for a company's triumph and advancement. However, as acknowledge by Hamid³⁹, it is very challenging to develop the organisational culture based on religious belief, of which the Islamic culture is one good example. However, it is believed that given the social values and nature of cooperatives, this is not an impossible initiative taken into consideration that "culture is nothing more and nothing less than a repetition of traits and the internalisation of positive values". With the support of all stakeholders, particularly the SG organs, this objective can be positively achieved and materialised.

4.3 Awareness and Readiness

The Strength, Weakness, Opportunity and Threat (SWOT) approach used in the cooperative sector analysis is an appropriate benchmark that serves to:

³⁶ Organisational culture encompasses values and behaviours that contribute to the unique social and psychological environment of an organization, cf. www.businessdictionary.com

³⁷ D. Needle, *Business in Context: An Introduction to Business and Its Environment*, (London: Thompson, 2004).

³⁸ D. R. Denison, S. Haaland, & P. Goelzer, "Corporate culture and organizational effectiveness: is Asia different from the rest of the world?" *Organizational Dynamics*, Vol.33, (2004), 98-109; D. P. Modaff, S. DeWine & J. Butler, *Organizational Communication: Foundations, Challenges, and Misunderstanding.*, 2/e. (Boston: Pearson Education, 2011).

³⁹ A. S. A. Hamid, *Epilogue in Corporate Governance from the Islamic Perspective*. (IKIM, 2002).

- i. Explain the state of the current reality of the organisation and the components that are in and around it
- ii. Identify elements that can reinforce the organisation and which can jeopardise the current situation of the organisation
- iii. Allow organisations to prepare for a contingency due to environmental changes
- iv. Help the organisation produce appropriate strategies in achieving the vision and mission of the organisation

The awareness that comes with the intention of practising SG will be an added value in the SWOT assessment of an organisation. This is because, as the caliph of *Allah*, the pillars of a Muslim's life will depend on *tawhid*, which is based on the absolute source of *Qur'an* and *as-Sunnah* as the main reference. With this, dependence on the Almighty God is the only source of unrivalled power. High divine awareness makes barriers and weaknesses more irrelevant and opens more positive opportunities to the organisation³⁹.

The willingness to make continuous changes is now a necessity for the success of a business or organisation, and researchers have ensured that for organisational readiness, individual employees need to be open and willing to change.

4.4 Mutual Cooperation (*Ta'awun*)

Narrated Abu Musa: that when Allah's Messenger sent him and Mu'adh bin Jabal to Yemen, he said to them, "Facilitate things for the people (treat the people in the most agreeable way), and do not make things difficult for them, and give them glad tidings, and let them not have aversion (i.e. to make the people hate good deeds) and you should both work in cooperation and mutual understanding, obey each other."⁴⁰

Ta'awun can be defined as mutual cooperation between human for the sake of goodness. From the *Shari'ah* perspective, *ta'awun* is prohibited to be used for illegal, vices, and harmful activities. This is in line with the main purpose of Islam that emphasises the execution of duties as servant and vicegerent of *Allah*, rather than championing

⁴⁰ *Sahih al-Bukhari*, 6124

the rights of individuals, as per the *Qur'an*⁴¹:

“And I created not the Jinn and mankind except that they should worship Me.”

The meaning of this verse (51:56) is that Allah has blessed the creation of human for them to worship Allah without partners. Indeed, those who obey Allah will be rewarded with the best rewards, while those who disobey Him will receive the worst punishment from Him. Allah stated that He does not need creatures, but rather, they are in need of Him in all conditions. He is alone their Creator and Provider⁴².

In the context of the organisation, *ta'awun* is defined as cooperation in a spirit of brotherhood⁴³. *Ta'awun* spirit drives the need to cooperate in improving the coherence of the group. Islam⁴⁴ point out that the concept of *ta'awun* is important in fostering unity and brotherhood. Ibrahim et al.⁴⁵ state that it is part of Islamic teaching and a process of social solidarity which is the faith-inspired social capital⁴⁶. This also supports the view of Othman et al.⁴⁷ that the success of the cooperative is not only dependent on its efficiency and effectiveness from governance and management but also on

⁴¹ *Surah al-Zariyat*, 56

⁴² *Tafsir Ibn Kathir*, Vol.9, (2003)

⁴³ N. Ismail, A. A. Othman, N. L. M. Yousop, S. Z. M. Din, N. A. Bakar, M. K. A. Noh & R. M. Shafi, “A Study of the Awareness Level of Takaful Products among Micro Enterprises in Malaysia”. *Journal of Modern Accounting and Auditing*, 9(11), (2013), 1535-1542.

⁴⁴ R. Islam, “Group Decision Making through Nominal Group Technique: an Empirical Study”. *Journal for International Business and Entrepreneurship Development*, 5(2), (2010), 134-153.

⁴⁵ N. Ibrahim, S. R. Kamsani & J. Champe, “Understanding the Islamic Concept of *Usrah* and Its Application to Group Work”. *The Journal for Specialists in Group Work*, 40(2), (2015), 163-186.

⁴⁶ M. Malik, “*Ihsani* Social Capital: A Conceptual Exploration to Faith-inspired Social Capital”, *International Journal of Education and Social Science*, 1(2), (2014), 130-138.

⁴⁷ A. Othman, N. Mansor & F. Kari, “Assessing the Performance of Co-operatives in Malaysia: An Analysis of Co-operative Groups Using a Data Envelopment Analysis Approach”, *Asia Pacific Business Review*, 20(3), (2014), 484-505.

members' participation, board independence, directorial expertise, other board features such as board size.

4.5 Islamic Mindset

A mindset refers to “a particular way of thinking,” or, “a person’s attitude or set of opinions about something”⁴⁸. The Islamic mindset refers to the *Shari’ah* mindset that is based on the *al-Qur’an* and *as-Sunnah* as the main reference.

A *Shari’ah* mindset is an important element in an Islamic organisation. As an individual who understands the responsibility of being the Caliph of Allah, every practice and task will be based on divine consciousness. However, not all employees in an organisation have this mindset. It is a challenge to change a person’s thinking to accept changes that need to be done within the organisation. As mentioned in the *Qur’an*;

“Verily, Allah will not change the (good) condition of a people as long as they do not change their state (of goodness).”⁴⁹

The importance of *Shari’ah* mindset in an organisation are highlighted by experts⁵⁰ stating that a *Shari’ah* mindset can help the organisation such as the IFIs to achieve the Shariah-compliant status. Having a common requirement with IFIs as regards to the upholding of Shariah principles in its operations, the Shariah mindset is thus an essential aspect of SG practices for cooperatives as well.

4.6 Manpower Competencies

Human capital is an important asset to produce excellence for an organisation. Hence, special attention should be given to the

⁴⁸ The Merriam-Webster Online Dictionary (accessed date: 10th July 2017)

⁴⁹ *Surah Ar-R’ad*, 13:11

⁵⁰ This is highlighted by Datuk Dr. Mohd Daud Bakar in a public lecture on “Critical Success and Failure Factors in Islamic Finance in the 21st Century: An Insider and Global Perspective” (USIM, 2017, Feb. 14); and also by Prof Dr. Rusni Hassan in a public lecture on “Implementation of Shariah Governance Framework for IFIs: Where are We Now after 5 years?”, Quarterly Islamic Finance Public Lecture IRCIEF-IRTI, (KUIS, 2017, Feb. 20).

efficiency and effectiveness of human capital in carrying out the duties entrusted to them. A robust human resource management process must include a process to enhance manpower competencies that contributes to the superior quality integrity of the individual in the organisations. Organisations guided by individuals with high integrity will be more convinced by the community. Dato Seri Fong Chan Onn affirmed that:

“The quality of the nation’s human capital will be the most crucial element in the achievement of the national mission. And thus human capital development is a key thrust in the Ninth Malaysia Plan. Human capital development should be holistic, encompass the acquisition of knowledge and skills or intellectual capital including science and technology and entrepreneurial capabilities as well as internalising positive and progressive attitudes, values and ethics through education, training and lifelong learning”⁵¹.

In the context of manpower requirements for SG, the cooperatives must ensure that the main SG organs, such as the Board of Directors and *Shari’ah* Committee members, are competent to perform their duties as the caretaker of the overall *Shari’ah* compliance aspects of the institution. In addition, the supporting *Shari’ah* personnel performing *Shari’ah* related functions such as *Shari’ah* secretariat, *Shari’ah* review and *Shari’ah* Audit are similarly required to have relevant qualification and competence in performing their duties. Qualified and competent stakeholders ensure proper and efficient implementation of *Shari’ah* governance practices in the cooperatives.

As such, the human resource management of the cooperatives must not only recruit qualified and competent person, but must also ensure proper placement, development, careers and training for the employees. For the successful implementation of SG initiatives, the cooperatives need to be efficient in forming knowledgeable,

⁵¹ Dato Seri Fong Chan Onn, “*Developing Human Capital- the Way Forward: Managing Human Capital in the Globalised Era*”, 11th Public Service Conference Speech, (2010, Jan. 6).

professional, strategic-minded workforce, always relevant to environmental change and high ethical values.

With the practice of SG in the cooperative, it will assist in the implementation of programs that can empower competencies of the individual in the organisations in a more holistic manner. The findings in this empirical study on the SG organs of cooperatives find Islamic attributes need to be nurtured and enhanced within the SG organs. The positive Islamic attributes, in addition to managerial and technical knowledge and skills ensure better competencies and accountability of the SG towards their stakeholders.

5.0 Conclusion

The establishment of a cooperative is based on understanding, trust and cooperation among its members. However, these elements have deteriorated in recent years leading to problems of corruption, crisis, and management collapse that led to changes in governance practices. To address this problem, superior roles are seen as essential to bringing the organisation back to the right track, which is on how key organs can ensure that the guidelines set are most practiced, and the welfare of all stakeholders can be safeguarded.

Overall, several new findings have been found from the results of the study. More specifically, this study has provided empirical evidence of the tendency and degree of SG implementation amongst cooperatives in Malaysia. The research findings are also believed to contribute significantly to the exploration and improvement of the SG in the cooperative sector. This study is also believed to pave the way for further research towards achieving a more successful SG implementation goal at the cooperative level in the future.

Looking at the current scenario in the cooperative sector, the control mechanisms on management are required as a preparation of the cooperative to fully adopt the SG practices. The best mechanism identified is the needs of Shariah consultants or Shariah experts in the cooperative sector to consult, advisory, monitoring and reviewing. With this, SG can be strengthened especially in cooperatives that have already taken the initiative to implement it. SG guides on the ethical way of conducting business in cooperatives, which emphasise on the principle of commitment, cooperation and PLS among the

stakeholders.

At the end of the successful implementation of SG, the social wellbeing should be preserved. This is in line with the pyramid of *masalahah* as proposed by Dusuki. For the cooperatives' movement, the World Council of Credit Unions, reaffirm their role in supporting the general interest and the development of the whole community: "their (Credit Unions) decisions should be taken with full regard for the interest of the broad community within which the credit union and its members reside".

It is hoped that this study will be a catalyst for new studies that will continue to explore collaborative opportunities to achieve mutual understanding and form holistic goals in the field of cooperatives. Greater depths and rigour on cooperative studies will further assist the industry to grow to benefit individuals, organizations and society as a whole.

AL-SHAJARAH

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