Islamic Development Management
Noor Zahirah Mohd Sidek · Roshima Said · Wan Norhaniza Wan Hasan
Editors

Islamic Development Management

Recent Advancements and Issues

Springer
Editors
Noor Zahirah Mohd Sidek
Department of Economics
Universiti Teknologi MARA
Bedong, Kedah, Malaysia

Roshima Said
Research and Industrial Linkages Division
Universiti Teknologi MARA
Bedong, Kedah, Malaysia

Wan Norhaniza Wan Hasan
ISDEV
Universiti Sains Malaysia
George Town, Penang, Malaysia

https://doi.org/10.1007/978-981-13-7584-2

© Springer Nature Singapore Pte Ltd. 2019
This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, expressed or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Singapore Pte Ltd.
The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

hajarsalwa@gmail.com
I feel honoured to be invited to jot down a few words in this Foreword. I am so grateful to witness the Islamic development management field that we pioneered since 1991 at our Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia, is now taking another step to capture a wider scope, outside ISDEV.

In this present book, the scope is widened into the dimensions of good governance, sustainable development, development of waqf and takaful, development of value-based activities, development in fiqh and legal framework, and the development of Islamic principles in other issues. These scopes go beyond our initial scopes at ISDEV, which only focus on just six disciplines, viz. Islamic-based Development, Management of Islamic Assets Development, Management of Islamic Development Institutions, Islamic Service Management, Islamic Political Economy and Islamic Research Methodology. To some, the scopes covered in this present book may be seen as a little bit ‘loose’ as compared to those at ISDEV, but this is understandable. The scopes in this book are meant for an edited book, while those scopes at ISDEV are meant for a set of serious academic disciplines involving postgraduate teaching and learning, and research and consultancies. In other words, the scopes in this book are just the dimensions within the Islamic development management, while the scopes at ISDEV are the disciplines within the Islamic development management. That is the main difference.

Nevertheless, the effort of the editors of this book is truly in line with our definition of Islamic development and management. In our endeavour to develop the field of Islamic development management, we redefine development by stretching it beyond the normal socio-economic and politic development per se, to include all aspects of human existence, in as ‘low’ as the development of inner human self, to a higher development of individuals, family, community, states and the universe. At all levels, these are managed by the actors of development—the human beings—in a way that fulfils their principle vertical function as the servants of Allah (hablum-minallah), and their horizontal function as vicegerent of Allah (hablum-minannas). In other words, management is indeed the very function of human creation as the vicegerent of Allah, guided closely by their vertical function
as the servants of Allah. As vicegerent of Allah, human beings are embedded with the very obligations to manage the development of all aspects of human existence, at all levels. In simpler words, Islamic development management can be seen as managing development—in all aspects of human existence and at all levels—in an Islamic way. Indeed, it is a holistic development management.

Lastly, I am aware that it is not easy to build a book in a form of an edited one. The challenge may be lesser in building up an edited book that has been designed with solicited articles. However, to choose exactly related articles from conference papers such as in the case of this present book may be more challenging. The editors of this present book, however, seem to some extent have tried to overcome this challenge with an admirable success, especially when the effort is considered as the first of its kind, outside ISDEV.

We thank Alah SWT for providing opportunities, assistance and strength in the realisation of the publication of this book. Alhamdulillah. Huge congratulations, editors.

George Town, Penang, Malaysia

Muhammad Syukri Salleh
Former Founding-Director, Centre for Islamic Development Management Studies (ISDEV)
Universiti Sains Malaysia
Introduction

Whilst Islamic economics and finance is a familiar and highly researched topic, Islamic development management has yet emerged from its sheath. Islamic development management arises from the need that not only the development has to be Islamic, but the management of the Islamic development must also follow the fundamental guidelines purported by Islam. To achieve this, both development and its management shall be rooted from Islamic epistemological and ontological underpinnings. As management and development continue to revolutionise, this web of intricate interconnectedness must be well understood to ensure sustainability, growth and equity. Islamic development management is a game-changer for a neoteric development management which transcends political, ethnicity, racial or religious differences.

Islamic development management involves rethinking of existing management and development models in the light of Industrial Revolution 4.0, the Internet of Things, cryptocurrency; all of which requires remodelling of existing practices. Nevertheless, digital disruptions may change the way of doing things but the basic principles taught in Islam remain the same which ensures fairness, justice and equity. A future in which ethics and values become a vital part to ensure efficiency in development management would be a welcome development indeed, upending decades of focusing merely on wealth generation and accumulation. As it comprises interconnected disciplines, Islamic development management covers bigger a scope of discourse related to managing the Islamic development. This nature can be seen from the discussions covered in this book.

The book is divided into six (6) distinct parts. Part I is the compilation of work to accentuate good governance from the Islamic perspective. Hamdan et al. chapter looks into the management of endowment funds from the perspective of governance structure. Muhamad and Sulong review the pattern of shari’ah governance and its components and highlight how shari’ah governance promotes disclosure of high-quality financial information especially the shari’ah compliant companies. Arshad et al. introduce a new measure of i-CSR. This genuine model is built upon the principles of the maqasid of shari’ah and maslahah. The authors highlighted three important points. First, disclosure was at best, in terms of environment, health
and market place. Second, protection of wealth is one of the most important dimensions of disclosure and finally, the urgent need to find communication channels to gain more disclosure information. Ahmad and Aziz probes into a new quality management system and hospitality industry, respectively. Ahmad proposed a *halal*-green concept for building a high-quality management system to ensure sustainability of the system. The author has meticulously outlined the *halal* and green elements into the quality management system. Aziz studied the issue of Muslim friendly hospitality and concludes that Malaysia is on the right tract but should focus more on the structure of the concept to maximise economic benefits and ensure sustainability. In the same vein, Ibrahim et al. examine the corporate governance–financial performance nexus of local and conventional banks in Malaysia. Interestingly, unlike previous studies, their studies found no relationship between financial performance and corporate governance.

Part II of the book delves into the issue of sustainability in Islamic development management. Wan Hasan delves into development of an Islamic sustainability index which utilises the concept of ‘returning to the original *fiqh*’ approach which constitute the novelty and originality of this chapter. Based on the value-based intermediation (VBI) framework, Ibrahim et al. propose *waqf* (endowment) as a mediator, linking sustainability and strategic performance in CSR activities. Abdullah et al. examine the sustainability of Islamic microfinance institutions in Malaysia. One of the highlights is that Islamic microfinancing institutions have limited services. *Zakat* and *waqf* have yet to accounted for as a mode of financing with promising potentials.

Part III of this book explores value-based activities tied within the parameters of *shari’ah*. Che Rusuli et al. propose the elements that constitute an Islamic value-based entrepreneurship model. Jamalurus et al. examine the *wasiyyah* (will writing) amongst Muslims in Malaysia. Musadik and Azmi outline the factors influencing impulse buying behaviour from the Islamic perspective. Yusoff reviews relationship marketing and the possibility to infuse Islamic standard. The author also proposes mechanism to integrate internal and external marketing in an Islamic-based relationship marketing.

Part IV specifically deals with the developments in *waqf* and *takaful*. Abidin and Basrah propose a development framework to build affordable homes on *waqf* land for urban poor. Lambak et al. study the auto Takaful underwriting practices within the framework of *maqasid* of *shari’ah* and find several loopholes associated with the processes. On a similar note, Ghani et al. apply the concept of *hajiyat* to examine whether *takaful* operators to resort to conventional counterparts for re-*takaful* purposes. Ahmad examines the possible use of *zakat* and *waqf* for the survival of *pondok* institutions in the state of Kedah, Malaysia.

The penultimate part reviews the recent development in *fiqh* and legal framework. Muin et al. try to incorporate *fiqh* method into social entrepreneurship. Hussin et al. examine universities as *waqf* managers from the legal perspectives and the possible implications. Shafii and Ali look at *shari’ah* non-compliant event disclosure and propose improvements in transparency via sufficient, valid and pertinent disclosures. Jusoh et al. examine the fundamental of *wassiyah wajibah*. 

hajarsalwa@gmail.com
which is tremendously lacking in Malaysia. They propose *wassiyah wajibah* concept (first introduced in Selangor in 2004) to expedite distribution of estate and protection of orphans due to death. Abdullah et al. explore Islamic Project Management (IPM) based on ontological resources.

Part V looks into the application of Islamic principles in other issues. Kassim et al. propose a new outlook of the framework in understanding ornamental architecture involving Islamic principles. Gazali et al. apply the theory of reasoned actions in predicting the intention to save for retirement and incorporate personal financial planning and religiosity. Mansor et al. review the implementation of zakat vis-à-vis taxation in the context of Malaysia, whilst Ahmad et al. study the employability and performance of graduate from Islamic Studies in UniSHAMs. Finally, Fathil provides a narrative on the conflict of Uyghur Muslims in Xinjiang, China.

Our maiden attempt to put forward the recent discussions in Islamic development management is to increase interest on this subject matter which eventually would lead to more research, development and innovation in this area. More vital areas need to be studied in detail to promote understanding and enable better solutions to manage the Islamic development in the current globalised world.

Noor Zahirah Mohd Sidek
Roshima Said
Wan Norhaniza Wan Hasan
# Contents

**Part I Governance**

**Effective Board Governance Structure for a University Endowment Fund** ........................................ 3
Hamdino Hamdan, Mutilib Anifowose and Hairul Azlan Annuar

**Corporate and Shariah Governance Mechanisms and Earnings Quality in Islamic Banks: A Review and Evaluation of Patterns** ....... 19
Siti Fariha Muhamad and Zunaidah Sulong

**The Corporate Ethical Identity of Shari’ah Compliant Companies on Islamic Corporate Social Responsibility Disclosure** ............... 33
Syahiza Arsad, Roshima Said, Haslinda Yusoff and Rahayati Ahmad

**Halal-Green: The New Quality Management System** ................. 51
Fadzila Azni Ahmad

**Muslim-Friendly Hospitality: An Overview of the Emerging Hospitality Industry in Malaysia** ................................. 65
Azreen Hamiza Abdul Aziz

**Corporate Governance Mechanisms and Financial Performance: A Comparative Study Between Local Islamic Banks and Local Conventional Banks in Malaysia** ................................. 75
Haslindar Ibrahim, Jiunn-Shyan Khong, Zanaliza Abdullah and Afizar Amir

**Part II Sustainability**

**Reconstruction of the Islamic Sustainable Development Index** ........ 107
Wan Norhaniza Wan Hasan
Enhancing Strategic CSR for Sustainability Through Moderating Effect of Waqf Orientation: A Solution Through CSR-VBI Canvas

Siti Sara Ibrahim, Abd Halim Mohd Noor, Roshayani Arsyad and Shafinah Ismail

Challenges for Sustainable Islamic Microfinance Institutions in Malaysia

Md. Faruk Abdullah, Zelhuda Shamsuddin and Suraya Mahmood

Part III Values

Exploring the Islamic Value-Based Entrepreneurship in Malaysia

Muhamad Saffi Che Rusuli, Rosmaini Tasmin, Noraani Mustapha and Suhaila Abdul Kadir

The Awareness of Wasiyyah (Will Writing) Practice Among Muslims

Hasmah Laili Jamalurus, Siti Fairus Mokhtar and Hasni Abd Rahim

Impulse Buying Behaviour from Islamic Perspective: A Conceptual Paper

Siti Hajar Salwa Ahmad Musadik and Ilhaamie Abdul Ghani Azmi

Islamic-Based Relationship Marketing: An Integration of Internal and External Marketing

Murni Yusoff

Part IV Waqf and Takaful

Development Framework for Affordable Housing on Waqf Land

Nurzaifa Zainul Abidin and Noraliza Basrah

Application of Maqasid al-Shariah Principles in Auto Takaful Underwriting Practices

Salman Lambak, Hartini Ab Ghani, Md. Faruk Abdullah and Zunaidah Sulong

Is Hajiyat Still the Basis for Takaful Operators to Resort to Conventional Re-insurance? An Appraisal on Malaysian Takaful Industry

Hartini Ab. Ghani, Salman Lambak, Md. Faruk Abdullah and Zunaidah Sulong

A Critical Analysis of Zakat and Waqf in Sustaining the Development and Survival of Pondok Institution in Kedah

Rahayati Ahmad, Siti Hafsha Albasri, Syahiza Arsat and Roshima Said
Part V  Fiqh and Legal Framework

The Fiqh Method in Islamic Social Entrepreneurship:  
An Introduction ........................................... 225  
Mohd Adib Abd Muin, Shuhairimi Abdullah and Azizah Che Omar

The Approaches Adopted by the Selected States in Appointing  
Universities as Waqf Managers ............................... 239  
Rohayati Hussin, Sharifah Zubaidah Syed Abdul Kader,  
Rusnadewi Abdul Rashid and Nur Aqidah Suhaili

The Need for Credible Reporting of Shariah Non-compliance Event  
by Islamic Banks in Malaysia ................................. 249  
Syahiru Shafii and Engku Rabiah Adawiah Engku Ali

Wasiyyah Wajibah Law in Malaysia—Concept, Application  
and Practices ............................................. 263  
Mohd Shukri Jusoh, Zunaidah Sulong, Ahmad Othman  
and Mohd Rahim Ariffin

Contextual Meaning of Project Management Elements  
from the Quran ........................................... 277  
Abdul Aziz Abdullah, Suzana Sulaiman, Zulazhan  
and Hamzah Abdul Rahman

Part VI  Application of Islamic Principles in Other Issues

The Identity of Islam in Project Development  
and the Public Realm ....................................... 299  
Puteri Shireen Jahn Kassim, Norwina Mohd Nawawi, Harlina Md Sharif  
and Sufian Hamat

The Applicability of the Theory of Reasoned Action in Predicting  
the Intention to Save for Retirement ........................... 317  
Hanefia Muchlis Gazali, Syed Musa Syed Jaafar Alhabshi  
and Adewale Abideen Adeyemi

Zakat Versus Taxation: An Overview of the Implementation  
in Malaysia ............................................... 329  
Norul Akma Mansor, Farah Husna Mohd Fatzel, Siti Marlia Shamsudin  
and Irdia Syahira Khair Anwar

Employability and Performance of Islamic Studies Graduates  
in UNISHAMS ............................................ 339  
Rahayati Ahmad, Rafidah Abdul Rahman and Zaridah Zakaria

Muslim Minority in China: A Case of Uyghur Muslims  
in Xinjiang .................................................. 355  
Fauziah Fathil
<table>
<thead>
<tr>
<th>Arabic Term</th>
<th>English Translation</th>
</tr>
</thead>
<tbody>
<tr>
<td><code>Ibadat</code></td>
<td>Worship</td>
</tr>
<tr>
<td>A`qilah</td>
<td>Payment of blood money or <em>diyyah</em> under the Arab tribal custom</td>
</tr>
<tr>
<td>Akad</td>
<td>Agreement</td>
</tr>
<tr>
<td>Akhlak</td>
<td>Behaviour, manner, etiquette, natural character</td>
</tr>
<tr>
<td>Al qiraat</td>
<td>Method of recitation of al-Qur’an</td>
</tr>
<tr>
<td>Al-`adl</td>
<td>Justice</td>
</tr>
<tr>
<td>Al-`aql</td>
<td>Mind or intellect</td>
</tr>
<tr>
<td>Al-adat</td>
<td>Custom</td>
</tr>
<tr>
<td>Al-birr</td>
<td>Righteousness</td>
</tr>
<tr>
<td>Al-Darar la Yuzal bi al-Darar</td>
<td>Harm cannot be eliminated with harm</td>
</tr>
<tr>
<td>Al-Darar Yudfa bi qadr al-Imkan</td>
<td>Harm is eliminated to the extent that is possible</td>
</tr>
<tr>
<td>Al-darar yuzal</td>
<td>The harm is to be removed</td>
</tr>
<tr>
<td>Al-darar yuzalu</td>
<td>The danger must be eliminated</td>
</tr>
<tr>
<td>Al-din</td>
<td>Religion</td>
</tr>
<tr>
<td>Al-falah</td>
<td>Success and salvation</td>
</tr>
<tr>
<td>Al-haqq</td>
<td>Truth and right</td>
</tr>
<tr>
<td>Al-hayah</td>
<td>Life</td>
</tr>
<tr>
<td>Al-khayr</td>
<td>Goodness</td>
</tr>
<tr>
<td>Al-ma’ruf</td>
<td>Known and approved</td>
</tr>
<tr>
<td>Al-mal</td>
<td>Wealth</td>
</tr>
<tr>
<td>Al-Ma’ruf `urfan ka al-Mashrut</td>
<td>The virtuous and respected members of the uruf (local custom) are as required</td>
</tr>
<tr>
<td>Shartan</td>
<td></td>
</tr>
<tr>
<td>Al-Mashaqqah Tajlibu al-Taysir</td>
<td>Difficulty to bring convenience</td>
</tr>
<tr>
<td>Al-maslahah/maslahah</td>
<td>Public interest</td>
</tr>
<tr>
<td>Al-masyaqqah tajib al-taysir</td>
<td>Hards beget facility</td>
</tr>
<tr>
<td>Al-muru’ah</td>
<td>Dignity</td>
</tr>
<tr>
<td>Al-nafs</td>
<td>Self</td>
</tr>
<tr>
<td>Arabic Term</td>
<td>English Translation</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Al-nasl</td>
<td>Posterity</td>
</tr>
<tr>
<td>Al-qa’idah</td>
<td>Method</td>
</tr>
<tr>
<td>Al-qist</td>
<td>Equity</td>
</tr>
<tr>
<td>Al-qiyamah</td>
<td>Upon death (be forced to return to its Primary Origin)</td>
</tr>
<tr>
<td>Al-rasyidin</td>
<td>The first four caliphs following the death of the Prophet Muhammad</td>
</tr>
<tr>
<td>Al-salihat</td>
<td>Pious action</td>
</tr>
<tr>
<td>Al-tadarruj</td>
<td>In stages</td>
</tr>
<tr>
<td>Al-taqwa</td>
<td>Piety</td>
</tr>
<tr>
<td>Al-Umur bi Maqasidiha</td>
<td>Each item is judged by the intention</td>
</tr>
<tr>
<td>Al-waqif</td>
<td>Donor/a person who donates waqf fund</td>
</tr>
<tr>
<td>Al-Yaquin La Yuzalu Bi al-Shakk</td>
<td>Confidence is not lost with doubt</td>
</tr>
<tr>
<td>Amanah</td>
<td>Trust</td>
</tr>
<tr>
<td>Amar makruf wa nahi munkar</td>
<td>Enabling good and preventing evil</td>
</tr>
<tr>
<td>Amil</td>
<td>Those who collect and manage zakat</td>
</tr>
<tr>
<td>Ar-rahnu</td>
<td>Islamic pawn broking for short-term collateralized borrowing</td>
</tr>
<tr>
<td>As samad</td>
<td>One of the names of God in the Qur’an</td>
</tr>
<tr>
<td>Asawlad al-butun</td>
<td>Children of female descendants of the testator (salbiyyah)</td>
</tr>
<tr>
<td>Asawlad al-zuhur</td>
<td>Children of the male descendants of the testator as long as there is no female in between</td>
</tr>
<tr>
<td>Ashab</td>
<td>Eligible recipient</td>
</tr>
<tr>
<td>Asnaf</td>
<td>Underprivileged group of people</td>
</tr>
<tr>
<td>As-sunnah</td>
<td>The way of the prophet Muhammad (P.B.U.H)</td>
</tr>
<tr>
<td>Awqaf</td>
<td>Something given (as a donation) for common use</td>
</tr>
<tr>
<td>Bai muajjal murabaha</td>
<td>A micro-credit product</td>
</tr>
<tr>
<td>Baitulmal</td>
<td>A financial institutions responsible for the administration of taxes in Islamic states</td>
</tr>
<tr>
<td>Bakhil</td>
<td>Stingy</td>
</tr>
<tr>
<td>Barakah</td>
<td>Seeking God’s blessings</td>
</tr>
<tr>
<td>Bay’ muajjal</td>
<td>Contract between the bank and the client in which the bank sells the commodity to the client with a fixed agreed price, and the client pays the price at a certain future date, in sum or fixed instalments</td>
</tr>
<tr>
<td>Bay’ murabahah</td>
<td>Cost plus agreed profit sale</td>
</tr>
<tr>
<td>Burqas</td>
<td>A long, loose garment covering the whole body from head to feet, worn in public by women in many Muslims countries</td>
</tr>
</tbody>
</table>
List of Arabic Terms

<table>
<thead>
<tr>
<th>Arabic Term</th>
<th>English Translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dahwah</td>
<td>Propagation of a belief (religious)</td>
</tr>
<tr>
<td>Dalil siyahi</td>
<td>Tourist guide</td>
</tr>
<tr>
<td>Darura</td>
<td>Necessities</td>
</tr>
<tr>
<td>Daruriyyat</td>
<td>Essentials</td>
</tr>
<tr>
<td>Dhaman</td>
<td>Guarantee</td>
</tr>
<tr>
<td>Dhiyafah</td>
<td>Accommodation</td>
</tr>
<tr>
<td>Diyyah</td>
<td>Blood money</td>
</tr>
<tr>
<td>Faraid</td>
<td>Islamic law of inheritance based on the Qur’an</td>
</tr>
<tr>
<td>Fardu</td>
<td>Religious duty or obligation</td>
</tr>
<tr>
<td>Fasakh</td>
<td>Married due to defects, prosperity and so forth</td>
</tr>
<tr>
<td>Fatwa</td>
<td>Shariah pronouncement</td>
</tr>
<tr>
<td>Fiqh</td>
<td>The theory or philosophy of Islamic law</td>
</tr>
<tr>
<td>Fiqh al-mu’amalat</td>
<td>Trade and transaction law in Islam</td>
</tr>
<tr>
<td>Fitrah</td>
<td>Human nature</td>
</tr>
<tr>
<td>Fuqaha’</td>
<td>A jurist, legal scholar or expert in Islamic law</td>
</tr>
<tr>
<td>Furu’</td>
<td>Branches/ancillaries of the faith</td>
</tr>
<tr>
<td>Gharar</td>
<td>Ambiguity or uncertainty</td>
</tr>
<tr>
<td>Habl min Allah</td>
<td>Establishing connection with Allah</td>
</tr>
<tr>
<td>Habl min al-Nas</td>
<td>Relationship between human beings with one another</td>
</tr>
<tr>
<td>Hadith</td>
<td>Collection of tradition of Prophet Muhammad and accounts of his daily practice</td>
</tr>
<tr>
<td>Hajjyyat</td>
<td>Benefits that seek to remove severity and hardship and support necessities</td>
</tr>
<tr>
<td>Hajj</td>
<td>Muslim pilgrimage to Mecca, takes place in the last month of the Muslim calendar. The last pillar in Islam</td>
</tr>
<tr>
<td>Hajjah</td>
<td>Basis of needs</td>
</tr>
<tr>
<td>Hajr</td>
<td>In Islamic law, the act of imposing a restriction on what a person may do with a property</td>
</tr>
<tr>
<td>Halal</td>
<td>Permissible or lawful</td>
</tr>
<tr>
<td>Haram</td>
<td>Prohibited</td>
</tr>
<tr>
<td>Hawalalah</td>
<td>Bill of exchange/cheque/promissory notes</td>
</tr>
<tr>
<td>Hibbah</td>
<td>A gift</td>
</tr>
<tr>
<td>Hijab</td>
<td>A piece of cloth hung as a partition to divide an area into separate sections for men and women</td>
</tr>
<tr>
<td>Hijr</td>
<td>Migrate</td>
</tr>
<tr>
<td>Hukum</td>
<td>Law</td>
</tr>
<tr>
<td>Ibra’</td>
<td>Rebate</td>
</tr>
<tr>
<td>Ihsan</td>
<td>Good deeds/kindness</td>
</tr>
<tr>
<td>Ijab</td>
<td>Declaration or a firm proposal made first with a view to creating an obligation</td>
</tr>
<tr>
<td>Ijarah</td>
<td>Leasing</td>
</tr>
<tr>
<td>Arabic Term</td>
<td>English Translation</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ijma’</td>
<td>The universal and infallible agreement of either the Muslim community as a whole or Muslim scholars in particular</td>
</tr>
<tr>
<td>Ijtihad</td>
<td>Technical term of Islamic law that describes the process of making a legal decision by independent interpretation of the legal sources, the Qur’an and the Sunnah</td>
</tr>
<tr>
<td>Ikhlās</td>
<td>Sincere</td>
</tr>
<tr>
<td>Iktiyariyyah</td>
<td>Voluntary or optional</td>
</tr>
<tr>
<td>Iman</td>
<td>Faith</td>
</tr>
<tr>
<td>Iqalāh</td>
<td>For rescission or cancellation of a contract</td>
</tr>
<tr>
<td>Iqamah al-ʿAdl</td>
<td>Establishing justice</td>
</tr>
<tr>
<td>Istibdal</td>
<td>Substitution process for the <em>waqf</em></td>
</tr>
<tr>
<td>Jahiliyyah</td>
<td>The age before the arrival of Islam also known as ignorance ages of the Arab</td>
</tr>
<tr>
<td>Jannah</td>
<td>Heavens</td>
</tr>
<tr>
<td>Kaffarāt</td>
<td>Penalty</td>
</tr>
<tr>
<td>Kamaliyat</td>
<td>Human needs that refer to things and activities that satisfy and embellishes lives of people</td>
</tr>
<tr>
<td>Karamah</td>
<td>Charismatics gift or the capacity to perform miracles, as evidenced by the temporary suspension of natural order through divine intervention</td>
</tr>
<tr>
<td>Khairat</td>
<td>Charitable expenses, usually related with funeral</td>
</tr>
<tr>
<td>Khilāfa</td>
<td>A person considered a religious successor to the Islamic prophet Muhammad and a leader of the Muslim nations</td>
</tr>
<tr>
<td>Khilafah</td>
<td>General leadership over all Muslims in the world</td>
</tr>
<tr>
<td>Kuliyyah</td>
<td>College</td>
</tr>
<tr>
<td>La yunkar taghāyyur al-Ahkām</td>
<td>It is not possible to change the law because of time change</td>
</tr>
<tr>
<td>bi taghāyyur al-Azaman</td>
<td></td>
</tr>
<tr>
<td>Madarrah</td>
<td>Harm</td>
</tr>
<tr>
<td>Madrasah</td>
<td>Islamic schools</td>
</tr>
<tr>
<td>Mafṣadah</td>
<td>Harm</td>
</tr>
<tr>
<td>Mahram</td>
<td>Such as blood-related aunts or uncles</td>
</tr>
<tr>
<td>Maisir/maysir</td>
<td>Gambling</td>
</tr>
<tr>
<td>Manfa’ah</td>
<td>Benefit</td>
</tr>
<tr>
<td>Maqasid al-Shariah/Maqasid shari’ah/Maqasid syariah</td>
<td>Goal, purpose and objectives of Islamic rulings</td>
</tr>
<tr>
<td>Maqasid syariah al-khomsah</td>
<td>Five objectives for legislation of the rule of Islam encompassed with protection of faith, life, posterity, property and reason</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Marad-al-maut</td>
<td>Death of illness in respect of which the following conditions are satisfied; the illness must cause the death of the deceased; the illness must cause apprehension of death in the mind of the deceased and there must be same external indications of a serious illness</td>
</tr>
<tr>
<td>Mardatillah</td>
<td>Pleasure of Allah SWT</td>
</tr>
<tr>
<td>Ma’ruf</td>
<td>Known and approved</td>
</tr>
<tr>
<td>Maslahah ‘ammah</td>
<td>For public good or public benefit or public interest</td>
</tr>
<tr>
<td>Mawquf</td>
<td>Asset/property</td>
</tr>
<tr>
<td>Mawquf ‘alaih</td>
<td>Beneficiary</td>
</tr>
<tr>
<td>Meethaq</td>
<td>Agreement, covenant/oath or a contract</td>
</tr>
<tr>
<td>Muamalah</td>
<td>Set of rules related to worldly matters such as business/trading/commerce transactions, lending and borrowing contracts</td>
</tr>
<tr>
<td>Mudarabah</td>
<td>Profit and loss sharing contract where capital is financed by the owner of the business</td>
</tr>
<tr>
<td>Mufassirin</td>
<td>Author of a Tafsir</td>
</tr>
<tr>
<td>Muhkam</td>
<td>Established/decisive</td>
</tr>
<tr>
<td>Mujtahid</td>
<td>A person accepted as an original authority in Islamic law</td>
</tr>
<tr>
<td>Mukallaf</td>
<td>The person responsible for the duty and the order to carry out the law of the Islamic religion and to avoid his prohibitions</td>
</tr>
<tr>
<td>Murabahah</td>
<td>Mark-up based products</td>
</tr>
<tr>
<td>Musaqaqah</td>
<td>A type of partnership</td>
</tr>
<tr>
<td>Musharakah</td>
<td>Profit and loss sharing contract where capital is financed by all shareholders according to the proportion agreed upon by all parties</td>
</tr>
<tr>
<td>Musharakah mutanaqisah</td>
<td>Contract of partnership between two parties</td>
</tr>
<tr>
<td>Mutabaah</td>
<td>Review</td>
</tr>
<tr>
<td>Mutawalli</td>
<td>Manager/trustee</td>
</tr>
<tr>
<td>Nas</td>
<td>Source</td>
</tr>
<tr>
<td>Nazr</td>
<td>A vow, an offering anything offered or dedicated/a gift or present (from an inferior to superior)</td>
</tr>
<tr>
<td>Nisab</td>
<td>Exemption limit</td>
</tr>
<tr>
<td>Pondok</td>
<td>Another name of madrasah or school</td>
</tr>
<tr>
<td>Qabul</td>
<td>Acceptance in a contract</td>
</tr>
<tr>
<td>Qadhi</td>
<td>Magistrate or judge of a Shari’s court</td>
</tr>
<tr>
<td>Qana’ah</td>
<td>Feeling satisfied with everything that is given by God</td>
</tr>
<tr>
<td>Arabic Term</td>
<td>English Definition</td>
</tr>
<tr>
<td>-------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Qard</td>
<td>Contract of lending money by a lender to a borrower where the latter is bound to return an equivalent replacement amount to the lender</td>
</tr>
<tr>
<td>Qard hasan</td>
<td>Interest-free loan</td>
</tr>
<tr>
<td>Qat’ie</td>
<td>Authenticated/certain</td>
</tr>
<tr>
<td>Qawaid fiqhiyyah</td>
<td>Method of fiqh</td>
</tr>
<tr>
<td>Qiradh</td>
<td>Another name for mudharabah</td>
</tr>
<tr>
<td>Qisas</td>
<td>Retributive justice, equal retaliation as the punishment</td>
</tr>
<tr>
<td>Qismah</td>
<td>Rotation</td>
</tr>
<tr>
<td>Qiyas</td>
<td>Process of deductive analogy in which the teachings of the Hadith are compared and contrasted with those of the Qur’an, in order to apply a known injunction to new circumstances and create a new injunction</td>
</tr>
<tr>
<td>Qur’ānic āyahs</td>
<td>Verses</td>
</tr>
<tr>
<td>Qurāish</td>
<td>Mercantile Arab tribe that historically inhabited and controlled Mecca and its Ka’aba</td>
</tr>
<tr>
<td>Quran</td>
<td>Koran/sacred book of Muslims containing the word of God as revealed to Prophet Muhammad (P.B.U.H)</td>
</tr>
<tr>
<td>Qur’anic</td>
<td>Relating to or contained in the Qur’an</td>
</tr>
<tr>
<td>Rabb</td>
<td>God (Allah)</td>
</tr>
<tr>
<td>Rajih</td>
<td>Most acceptable</td>
</tr>
<tr>
<td>Rak’ah</td>
<td>Parts in a Muslim prayer</td>
</tr>
<tr>
<td>Ramadhan</td>
<td>Ninth month of the Muslim calendar, when Muslims fast during daylight hours</td>
</tr>
<tr>
<td>Raqabah</td>
<td>Supervision</td>
</tr>
<tr>
<td>Re-takaful</td>
<td>Islamic re-insurance</td>
</tr>
<tr>
<td>Rezk/Rizq</td>
<td>Sustenance</td>
</tr>
<tr>
<td>Riba</td>
<td>Interest</td>
</tr>
<tr>
<td>Riya’</td>
<td>Showing off</td>
</tr>
<tr>
<td>Rukhsah</td>
<td>Dispensation/permission/exemption as given by shar’i to Muslim in specific circumstances</td>
</tr>
<tr>
<td>Saddaqa</td>
<td>Charity</td>
</tr>
<tr>
<td>Safar</td>
<td>The second month in the Muslim (Hejira) calendar</td>
</tr>
<tr>
<td>Sahabah</td>
<td>Close companions of the prophet</td>
</tr>
<tr>
<td>Sahih</td>
<td>Valid</td>
</tr>
<tr>
<td>Salaf</td>
<td>Refers to the first three generations of Muslims, that is the generations of Muslims, that is the generations of the Islamic Prophet Muhammad (P.B.U.H) and his companions</td>
</tr>
<tr>
<td>Sayyi’at</td>
<td>Sinful action</td>
</tr>
<tr>
<td>Shari’ah/Shariah</td>
<td>The Muslim code of religious law</td>
</tr>
<tr>
<td>Arabic Term</td>
<td>English Translation</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Shulh</td>
<td>Conciliation or settlement through amicable negotiation</td>
</tr>
<tr>
<td>Sighah</td>
<td>Is a term used by the fuqaha’ to refer to the formal exchange which takes place between the contractual parties indicating their willingness to enter into the contractual agreement and therefore constitutes the contract itself</td>
</tr>
<tr>
<td>Siyahah</td>
<td>Travel and Tour</td>
</tr>
<tr>
<td>Solah</td>
<td>Ritual worship of the Muslim, reverence and respect paid to God</td>
</tr>
<tr>
<td>Sukuk</td>
<td>Bonds</td>
</tr>
<tr>
<td>Syara’/Syarak</td>
<td>Islamic legislation</td>
</tr>
<tr>
<td>Syarah</td>
<td>Description/explanation/commentary</td>
</tr>
<tr>
<td>Syawal</td>
<td>The tenth month in the Muslim calendar</td>
</tr>
<tr>
<td>Syirkah</td>
<td>The other name of musyarakah</td>
</tr>
<tr>
<td>Syubhah</td>
<td>Being corrupt</td>
</tr>
<tr>
<td>Syuf’ah</td>
<td>To combine/increase/fortify</td>
</tr>
<tr>
<td>Ta’zir</td>
<td>Punishment for offenses at the discretion of the judge (qadi) or ruler of the state</td>
</tr>
<tr>
<td>Tabaruat</td>
<td>Concept for involving only one party receive unconditionally</td>
</tr>
<tr>
<td>Tabi’in</td>
<td>Followers or successors. The generation of Muslims who followed the companions of the Prophet Muhammad</td>
</tr>
<tr>
<td>Tabligh</td>
<td>A presentation or broadcast of Islamic teachings</td>
</tr>
<tr>
<td>Tajdif fiqh takhfif</td>
<td>The first in the form of the first</td>
</tr>
<tr>
<td>Tafseer</td>
<td>Interpretation</td>
</tr>
<tr>
<td>Tahdhib al-Fard</td>
<td>Educating the individual</td>
</tr>
<tr>
<td>Tahfiz</td>
<td>To memorise or the process of reading, listening and reciting in order to learn something by heart</td>
</tr>
<tr>
<td>Tahsiniyyat</td>
<td>The desirable or the embellishments</td>
</tr>
<tr>
<td>Takaful</td>
<td>A type of insurance system devised to comply with the sharia laws, in which money is pooled and invested</td>
</tr>
<tr>
<td>Takhuff</td>
<td>Relief</td>
</tr>
<tr>
<td>Taqwa</td>
<td>Godliness religiousness</td>
</tr>
<tr>
<td>Tauhid</td>
<td>The belief that there is only one God, Allah</td>
</tr>
<tr>
<td>Tawakkal</td>
<td>Leaving everything in God’s hands because of wholehearted faith in God</td>
</tr>
<tr>
<td>Tawhid</td>
<td>Oneness of God</td>
</tr>
<tr>
<td>Ujjrah</td>
<td>Management fee</td>
</tr>
<tr>
<td>Ukhawwah</td>
<td>Brotherhood</td>
</tr>
<tr>
<td>Ulama</td>
<td>Muslims scholars of theologies</td>
</tr>
<tr>
<td>Ummah</td>
<td>Public</td>
</tr>
<tr>
<td>Umrah</td>
<td>Minor pilgrimage to Mecca</td>
</tr>
<tr>
<td>Arabic Term</td>
<td>English Term</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Ustaz</td>
<td>Male religious teacher</td>
</tr>
<tr>
<td>Usul</td>
<td>Motion, formal proposal put to a meeting for discussion</td>
</tr>
<tr>
<td>Usuluddin</td>
<td>Which primarily pertain to beliefs as opposed to action</td>
</tr>
<tr>
<td>Wadi’ah</td>
<td>The deposit of funds or assets by a person with an Islamic bank</td>
</tr>
<tr>
<td>Wakalah</td>
<td>Term in Islamic finance that denotes an agency contract, where one party appoints another to conduct a defined legal action on his behalf, for a specified fee or commission</td>
</tr>
<tr>
<td>Walayah</td>
<td>Sainthood/state of being of one chosen by God to interpret the inner meaning of God’s revelation to human beings, providing an ongoing link between humankind and divine revelation</td>
</tr>
<tr>
<td>Waqaf/Waqf</td>
<td>An endowment made by a Muslim to a religious, educational, or charitable cause</td>
</tr>
<tr>
<td>Waqafa</td>
<td>To detain, to prevent and to restrain</td>
</tr>
<tr>
<td>Wasail</td>
<td>Means</td>
</tr>
<tr>
<td>Wasatiyyah</td>
<td>Moderation</td>
</tr>
<tr>
<td>Wasiyyah</td>
<td>Document detailing the manner in which a Muslim’s wealth is to be disposed of after his death</td>
</tr>
<tr>
<td>Wasiat wajibah/Wasiyyah wajibah</td>
<td>Obligatory bequest</td>
</tr>
<tr>
<td>Zakah</td>
<td>Obligatory alms made annually under Muslim law</td>
</tr>
</tbody>
</table>
Part I
Governance
Effective Board Governance Structure for a University Endowment Fund

Hamdino Hamdan, Mutalib Anifowose and Hairul Azlan Annuar

Abstract  No doubt that endowment fund contributes much toward social and economic development in different societies. The same have been proved by University Endowment Funds (UEF) like the top ten UEF and others. This contribution to the society on high learning process is made possible through this fund under a corporate structure that directs all its activities. Due to the importance of governance in any organization, hence this study aims to analyze current governance structure, specifically board composition of the top five UEF. From it, suggestions can be given for universities undertaking Islamic Endowment Fund for improvements so as to become much better in terms of performance through good governance structure. Data were retrieved through content analysis from top five UEF reports. The study observed that there were two forms of board structure used on the governance of endowment funds at universities. These include single-tier and two-tier model. While the former comprises of a board that oversee the activities of the fund, the later consists of a Board of Trustees that formulate the policies and investment committee that executes the policies formulated. In either of the two models, the average size of the board is 9 members. The board comprises of male and female members and the meetings are held 4 times a year. Also, most of the funds engage in real estate business and most of the board members are professional finance experts. Based on the aforementioned, it is suggested that the management of the fund should be separated from the university management.

Keywords  University Endowment Fund (UEF) · Board structure · Governance · Independent

H. Hamdan (✉)  Department of Finance, Kulliyyah of Economics and Management Sciences, International Islamic University of Malaysia (IIUM), Kuala Lumpur, Malaysia  e-mail: hamdino@iium.edu.my

M. Anifowose · H. A. Annuar  Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University of Malaysia (IIUM), Kuala Lumpur, Malaysia


hajarsalwa@gmail.com
Introduction

Endowments are stocks of financial and real assets designed to generate income for financing an institution’s current and future operations. An endowment fund can operate or be managed under different organizations such as governmental and NGOs. Universities also manage endowment fund aiming to contribute to the process of higher education. Most of the big universities in the world have endowment funds. These universities create such funds to ensure the sustainability of universities in terms of capital and intellectual freedom (Dimmock, 2012). This implies supporting the university in leaning and researching activities to maintain excellence. Additionally, Dimmock (2012) argues that universities have this fund as a precaution towards any future financial risks. Moreover, an endowment usually requires that the principal remain intact in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose (Brown, Dimmock, Kang, & Weisbenner, 2014).

All this can be made possible through having a proper model for collecting the fund and its distribution to the targeted recipients (Rosen & Sappington, 2015). This can be seen by the success shown by well-performing UEF, the top ten UEF. Among of the factors for their success in managing the funds includes the size of endowment, quality of student body and use of alternative investments. In addition to that, having well-skilled investment managers, schools broader social networks, broader knowledge bases and more skillful investment committees that are responsible for overseeing and directing the investment team (Lerner, Schoar, & Wang, 2008).

Referring to the Islamic Endowment Fund, sharia must be considered in the whole process of raising, receiving, investing and disbursing the fund. Since the concept of the endowment in supporting different social activities is not new in Islam, as it has been practiced since the time of the prophet (p.b.u.h). This includes education provisions from lower to higher levels. The endowment is encouraged as it benefits society at large. In Islam, endowment is considered as a form of charity which it benefits is expected in this life and hereafter. University Endowment fund as an institution aims to collect fund or other assets with the aim of investing in different ways so as to earn income to support learning and research. Given the benefits (spiritual and social) of the endowment act to both donors and ummah at large, various Islamic Universities, for example, International Islamic University Malaysia (IIUM) have established the endowment fund so as to allow the role of contributions and charity in education (Laldin, 2008). Due to the great role by endowment fund toward the needy, it becomes important to give attention and continuous review on its governance structure and policy. This is because governance structure plays a significant role in the direction of the endowment fund. This is even more important for Islamic Endowment Fund as it needs governance people with sharia understanding.
Literature Review

Endowment fund can operate in either of the two main legal structures; as part of the university or as a foundation which is a separate legal entity from the university. However, some endowment assets can be held directly by the university while some by the separate legal entity. A similarity in governance structure appears in most of the endowment fund despite their legal structures. This is because, normally it is the university management that appoints an endowment board to account for the funds. The role of this board is to monitor the funds through asset allocation, investment policy, and spending rules (Dimmock, 2012).

Like any other program, endowment fund also required a sound governance mechanism in order to achieve the basis for its establishment. The purpose of this study is to analyze the existing governance structures specifically the board structure/composition of the universities’ endowment funds (top five) and then to recommend a better structure for the university endowment funds in an Islamic environment. In achieving this, the study considered what is distinctive about endowed university funds governance and identifies key issues that might help to improve their governance.

Governance is a combination of individuals making up of executive and management, which being organised into structures, programs oversight functions and policies that define the management principles and decision making (Hasan, 2014). Corporate governance deals with how capital providers ensure getting a return out of their capital investments. It is all about ways to control managers in running the investments so as to bring deserved return (Shleifer & Vishny, 1997). Therefore, corporate governance determines organizational directions through systems, processes, rules, and relationships. It’s through corporate governance that organizational objectives are created and ways to achieve them. It also involves risk management so as to increase performance.

The emphasis has been on the governance recently because good governance helps to ensure better organizational performance, fewer conflicts of interest, the higher probability that goals and objectives will be attained and less opportunity for misuse of corporate or fund assets (Garcia-Torea, Fernandez-Feijoo, & de la Cuesta, 2016). Given the broader view of corporate governance, the focus of this study is only on one aspect of it. Body composition of UEF such that analyzing the current board structure.

Going by the context analyses of university endowment funds, it was discovered that there are two kinds of models employed all over the world concerning the governance of endowment fund in the universities namely single-tier and two-tier model (Goetzmann & Oster, 2012). The single-tier structure is the composition of all the concerned parties with policy formulation and implementation into one board, whereas the two-tier structure is made up two sets of group which comprises the board governance of trustee and investment committee.
Method

Content analysis method is applied in this study to retrieve important corporate structure information from sample university endowment funds. The universities are selected based on their performance and for this case, top five UEF were selected. Using annual reports of each university endowment fund, the information on board structure including; ownership, board size, gender composition, meeting, independence, and role duality were collected. Then the distinctive features were analyzed to enable proposing a better structure for better management and directing of the funds. The top five Universities examined are Harvard University Endowment Fund, The Yale University Endowment Fund, University of Texas Endowment Fund, Princeton University Endowment Fund and Stanford University Endowment fund.

Results and Discussions

In this section, the review on governance structure and performance of the fund of each of the five UEF is provided as well as IIUM Endowment Fund, which follows sharia aspects in its activities.

I. Harvard Endowment Fund

Harvard Endowment Fund is owned by Harvard University and is a source of funding that maintains teaching and research activities of the university. It consists of 13,000 individual funds collected as one entity. This fund is valued at $37.1 billion up to June 2017. It is the first largest university endowment fund in the world. Its distribution contributed to more than one-third of the university operating budget (HMC, 2016, 2017).

Performance trend of Harvard Endowment Fund for the past five years starting from 2013 to 2017 is as follows: the endowment value is $ 32.7 billion, $36.4 billion, $37.6 billion, $35.7 billion, and $37.1 billion respectively. In terms of investment, the return from 2013 to 2017 is 11.3, 15.4, 5.8, 2, and 8.1% (Harvard Magazine, 2018).

The governance structure of Harvard Endowment Fund is vested on Harvard Management Company (HMC) since 1974, as a separate university unit. HMC is responsible for receiving and investing the fund in a different portfolio including long-term investment (private and public equity), less liquid and real estate. The appointment for the Board of Directors for HMC is done by Harvard University president and fellows. For this perspective, there are two separate boards, university board and HMC’s board which is responsible for the funds’ management. Table 1 shows the list of HMC board members.

From the table, it can be observed that the composition of the HMC includes 11 members, of which 8 are male and 3 are female. Out of 11 members, 6 are independent. By independence of the member, we refer to such members who are...
Table 1  HMC members of the Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul J. Finnegan, Chair of the Board</td>
<td>Co-Chief Executive Officer, Madison Dearborn Partners, Treasurer, Harvard University</td>
<td>Male</td>
</tr>
<tr>
<td>Lawrence S. Bacow</td>
<td>President, Harvard University</td>
<td>Male</td>
</tr>
<tr>
<td>Jane Brock-Wilson</td>
<td>Managing Director, Berkshire Partners LLC</td>
<td>Female</td>
</tr>
<tr>
<td>Amy C. Falls</td>
<td>Chief Investment Officer and Vice President for Investments, The Rockefeller University</td>
<td>Female</td>
</tr>
<tr>
<td>Joshua S. Friedman</td>
<td>Co-Founder, Co-Chairman, and Co-Chief Executive Officer, Canyon Partners, LLC</td>
<td>Male</td>
</tr>
<tr>
<td>Thomas J. Hollister</td>
<td>Chief Financial Officer, Harvard University</td>
<td>Male</td>
</tr>
<tr>
<td>Robert Jain</td>
<td>Co-Chief Investment Officer, Millennium Management</td>
<td>Male</td>
</tr>
<tr>
<td>Thomas L. Kempner, Jr</td>
<td>Co-Founder and Executive Managing Member, Davidson Kempner Capital Management</td>
<td>Male</td>
</tr>
<tr>
<td>N.P. “Narv” Narvekar</td>
<td>Chief Executive Officer, Harvard Management Company</td>
<td>Male</td>
</tr>
<tr>
<td>Brian C. Rogers</td>
<td>Chairman of the Board and Chief Investment Officer, T. Rowe Price Group</td>
<td>Male</td>
</tr>
<tr>
<td>Jeremy C. Stein</td>
<td>Moise Y. Safra Professor of Economics, Harvard University</td>
<td>Female</td>
</tr>
</tbody>
</table>

Source HMC (2017)

not related to the university. There is role duality since the chairperson of the board is also the university treasurer. This board meets 4 times per year.

II. Yale University Endowment Fund

Yale University Endowment Fund is the second largest UEF and it is owned by Yale University since 1975. The values of the fund up to June 2017 is $27.2 billion. Yale University endowment consists of varieties of funds with different determination and restrictions. Three-fourths of the endowment consists of restricted donations for long-term funding on chosen purpose. Returns out of this fund investments represent a greater income source for the university and this helps in salary payment, scholarship for students, and other costs (Yale Investment Office, 2016).

Yale endowment fund is invested in different eight classes of assets namely; absolute return, domestic equity, fixed income, foreign equity, leveraged buyouts, natural resources, real estate, and venture capital. Its performance trend for past the 5 years (2013–2017) is as follows: endowment value from is $20.8 billion, $23.9 billion,
$25.6 billion, $25.4 billion and $27.1 billion. Whereas the return on investment is 12.5%, 20.2%, 11.5%, 3.4%, and 11.3%, respectively (YMC, 2018).

The governance of the Yale Endowment Fund starts with Board of Trustee or Yale Corporation chaired by the president of the university. From this Board of Trustee, different outstanding committees are formed (now there are 12 committees), one of it is responsible for management of endowment fund (Yale University, 2018). This committee is the investments committee. Therefore, all activities of the Yale Endowment Fund are overseen by the Investment Committee since 1975 through Yale Investments Office. In this committee, at least three (3) members should come from within and others with specific investment knowledge. In this case, the board consists of 12 members, of which 11 are independent. The number of male board members is 10, while the female is 2. No role duality since the chairperson of the board is not holding a position in the university. This board meets 4 times per year to discuss the proposed strategies by Investment Office staff, policies on assets allocation and overall performance. Table 2 shows the board Composition for the Yale Corporation Investment Committee.

**Table 2** YALE Corporation investment members of the Board of Directors

<table>
<thead>
<tr>
<th>Title</th>
<th>Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Douglas A. Warner III ‘68</td>
<td>Male</td>
</tr>
<tr>
<td>Former Chairman, J.P. Morgan Chase &amp; Co</td>
<td></td>
</tr>
<tr>
<td>Peter Salovey ‘86 PHD</td>
<td>Male</td>
</tr>
<tr>
<td>President, Yale University</td>
<td></td>
</tr>
<tr>
<td>Francis Biondi ‘87</td>
<td>Male</td>
</tr>
<tr>
<td>Managing Member, King Street Capital Management</td>
<td></td>
</tr>
<tr>
<td>Michael Cavanagh ‘88</td>
<td>Male</td>
</tr>
<tr>
<td>Senior Executive Vice President and CFO, Comcas</td>
<td></td>
</tr>
<tr>
<td>Charles Goodyear IV ‘80</td>
<td>Male</td>
</tr>
<tr>
<td>President, Goodyear Investment Company</td>
<td></td>
</tr>
<tr>
<td>Ben Inker ‘92</td>
<td>Male</td>
</tr>
<tr>
<td>Partner, GMO</td>
<td></td>
</tr>
<tr>
<td>Paul Joskow ‘72 PHD</td>
<td>Male</td>
</tr>
<tr>
<td>President Emeritus, Alfred P. Sloan Foundation</td>
<td></td>
</tr>
<tr>
<td>An Miura-KO ‘98</td>
<td>Female</td>
</tr>
<tr>
<td>Co-founder, Floodgate</td>
<td></td>
</tr>
<tr>
<td>Kevin Ryan ‘85</td>
<td>Male</td>
</tr>
<tr>
<td>Chairman and Founder, MongoDB, Zola, Workframe, and Nomad Health</td>
<td></td>
</tr>
<tr>
<td>John Shrewsberry ‘92 MPPM</td>
<td>Male</td>
</tr>
<tr>
<td>Senior Executive President and CFO, Wells Fargo &amp; Company</td>
<td></td>
</tr>
<tr>
<td>Carter Simonds ‘99</td>
<td>Female</td>
</tr>
<tr>
<td>Former Managing Director, Blue Ridge Capital</td>
<td></td>
</tr>
<tr>
<td>Dinakar Singh ‘90</td>
<td>Male</td>
</tr>
<tr>
<td>CEO and Founding Partner, TPG-Axon Capital</td>
<td></td>
</tr>
</tbody>
</table>

*Source* Yale Investment Office (2016)
III. University of Texas Endowment Fund

This fund is owned by the University of Texas and it consists of two main funds; Permanent University Fund (the “PUF”) founded in 1876 and the General Endowment Fund (the “GEF”) founded on March 1, 2001, by the Board of Regents of the University of Texas System. Moreover, apart from the two funds it also manages other funds. In total, the endowment is valued at $26.5 billion at end of 2017 (The Best schools, 2018; UTIMCO, 2016). The governance of the University of Texas is under the Board of Regents with 5 committees (University of Texas System, 2018). This board transfers the trust on management responsibility of the endowment on the hand of the University of Texas Investments Management Company (UTIMCO) under its fiduciary control. Hence, since 1996 UTIMCO is responsible for investments of the endowment fund of this university.

This endowment is managed under five different funds namely; PUF, GEF, The University of Texas System Intermediate Term Fund (ITF), The Permanent Health Fund (PHF), and The University of Texas System Long-Term Fund (LTF). Under these funds, UTIMCO invests in various assets such as fixed income, real estate, natural resource, private investments, developed country equity, and emerging markets equity.

The governance of UTIMCO is under the Board of Directors, in which it has 9 members. Of which, at least 3 of them should come from the Board of Regents of the University of Texas System. “Four members appointed by the U.T. System Board of Regents, three of which must have substantial background and expertise in investments, and two members appointed by the Texas A&M System Board of Regents, one of which must have a substantial background and expertise in investments.” (UTIMCO, 2018).

Table 3 provides the board member of UTIMCO, whereby it comprises of nine members, of which all of them are not independent. There is role duality since the chairman is also the Vice Chairman of the Board of Regents of the university. About gender composition, the board has 1 female and 8 male. Meeting of the board is done more than 5 times per year.

IV. Princeton University Endowment Fund

Princeton University Endowment Fund is owned by Princeton University and is valued at $23.8 billion as of June 30, 2017. Profits out of endowment contribute nearly half of the revenues for the university’s operating budget. Princeton University is governed by the Board of Trustees numbered from 24 up to 40. The board consists of 3 types of trustee; charter trustees, term trustee, and alumni trustees. The first two is appointed by the board whereas the last one is appointed by alumni members. This board has ten outstanding committees discharged with some duties. One of the board responsibilities is to direct university finance and funds. This includes setting a budget and investment of endowment. As for endowment management, the board has discharged the responsibility to Princeton University Investment Company (PRINCO) (The Trustees of Princeton University, 2018). Like other endowments, it also invests in different portfolios such as real asset, private equity, international
Table 3 UTIMCO Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeffery D. Hildebrand Chairman</td>
<td>Vice Chairman: Board of Regents, The University of Texas System Chairman: Board of Regents, The University of Texas System</td>
<td>Male</td>
</tr>
<tr>
<td>Ray Rothrock</td>
<td>Chair: UTIMCO Compensation Committee Member: UTIMCO Risk Committee; Forbes Midas List; Corporation for the Massachusetts Institute of Technology CEO: RedSeal, Inc.</td>
<td>Male</td>
</tr>
<tr>
<td>R. Steven Hicks</td>
<td>UTIMCO Policy Committee Member: Board of Regents, The University of Texas System; Board of Regents, The University of Texas System—Academic Affairs Committee; Board of Regents, The University of Texas System—Audit, Compliance, and Risk Management Committee; Board of Regents</td>
<td>Male</td>
</tr>
<tr>
<td>Phil Adams</td>
<td>UTIMCO Audit and Ethics Committee Member, Past Chairman and Vice Chairman: Board of Regents, The Texas A&amp;M University System Owner, and President: Phil Adams Company</td>
<td>Male</td>
</tr>
<tr>
<td>J. Kyle Bass</td>
<td>UTIMCO Risk Committee Member: UTIMCO Compensation Committee; Advisory Group for the Center of Asset Management at the Darden School of Business at the University of Virginia Principal: Hayman Capital Management, L.P.</td>
<td>Male</td>
</tr>
<tr>
<td>Robert Gauntt</td>
<td>UTIMCO Compensation Committee; UTIMCO Risk Committee; The University of Texas Chancellor’s Council Executive Committee; Pro-Vision Charter School; Hope for Africa Advisory Group</td>
<td>Male</td>
</tr>
<tr>
<td>Janet Handley</td>
<td>UTIMCO Audit and Ethics Committee Member: UTIMCO Policy Committee; A&amp;M Legacy Society; Texas Wall Street Women Former Vice President for Investments: Texas A&amp;M Foundation Investment Committee Advisor: Society of Petroleum Engineers</td>
<td>Female</td>
</tr>
<tr>
<td>Ray Nixon</td>
<td>UTIMCO Compensation Committee; UTIMCO Policy Committee; McCombs School of Business Advisory Council</td>
<td>Male</td>
</tr>
<tr>
<td>James C. “Rad” Weaver</td>
<td>UTIMCO Audit and Ethics Committee; UTIMCO Risk Committee; Board of Regents, The University of Texas System—Academic Affairs Committee; Board of Regents, The University of Texas System—Audit, Compliance, and Risk Management Committee; Board of Regents, The University of Texas System</td>
<td>Male</td>
</tr>
</tbody>
</table>

Source UTIMCO (2018)

emerging and developed equity, independent return, fixed income and cash. The value of the endowment for the past 5 years (2013–2017) is $18.2 billion, $20.0 billion, $22.7 billion, $22.2 billion and $23.8 billion. Whereas the investment return is 11.7, 19.6, 12.7, 0.8, and 12.5%, respectively (Princeton University, 2018).

Since its establishment by the University Board of Trustees in April 1987, PRINCO has been managing the university endowment. It is a unit of the university with its different organization. Its Board of Directors consists of 12 members. Four members who are the President of PRINCO, the Chair of the Trustee Committee on Finance, President and treasurer of the university are automatically part of the board. The remaining 8 are elected (The Trustees of Princeton University, 2016). Currently, the board has 11 members of which 5 are independent. Eight of them are male and
<table>
<thead>
<tr>
<th>Title</th>
<th>Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip U. Hammarskjold ‘87 Chairman</td>
<td>Male</td>
</tr>
<tr>
<td>Carolyn N. Ainslie (ex officio)</td>
<td>Female</td>
</tr>
<tr>
<td>Christopher L. Eisgruber ‘83 (ex officio)</td>
<td>Male</td>
</tr>
<tr>
<td>James A. Forese ‘85</td>
<td>Male</td>
</tr>
<tr>
<td>Andrew K. Golden (ex officio)</td>
<td>Male</td>
</tr>
<tr>
<td>C. Kim Goodwin ‘81</td>
<td>Male</td>
</tr>
<tr>
<td>Bob Peck ‘88 Managing Director, FPR Partners</td>
<td>Male</td>
</tr>
<tr>
<td>Sarah E. Stein ‘97 Managing Partner, Hall Capital Partners</td>
<td>Female</td>
</tr>
<tr>
<td>Vera M. Trojan ‘82 Senior Managing Director, Wellington Management LLP</td>
<td>Female</td>
</tr>
<tr>
<td>C. James Yeh ‘87 (ex officio) Senior Managing Director, Citadel Investment Group LLC, University Trustee and Chair of the University Trustee Committee on Finance</td>
<td>Male</td>
</tr>
<tr>
<td>Anthony A. Yoseloff ‘96 Co-Executive Managing Member, Davidson Kempner Capital Management LP</td>
<td>Male</td>
</tr>
</tbody>
</table>

Source: Trustees of Princeton University (2018)

three (female). There is role duality since the chairman is also the member of the University Board of Trustee and the Chair the Committee of Audit and Finance. Table 4 presents the members of the Board of PRINCO.

V. Stanford University Endowment fund

Stanford University Endowment fund history can be traced from 1885 where it was established by Jane and Leland Stanford. Later on, in 1903, the endowment was formally transferred to university at a value of $24.2 million. This endowment is valued at 26.9 billion as of June 2017. This endowment provides big financial support to university academic programs such as scholarship in different disciplines to more than 16,400 students and faculty members.

In 1991, the Board of Trustee of Stanford University established Stanford Management Company (SMC) to manage the endowment fund. As a separate part of the university, it also has its governance under the Board of Directors which is appointed by the Board of Trustees. This board is currently chaired by Bruce Dunlevie, who is a partner of Benchmark Capital. He has no post in University Board of Trustee hence no role duality. For the past 4 years (2014–2017), the value of the fund is

hajarsalwa@gmail.com
$21.4 billion, $22.2 billion, $24.8 billion and $26.9 billion. As for investment return it is 17, 71, −0.41, and 13.1% respectively (SMC, 2016, 2017, Stanford University, 2014, 2015).

VI. IIUM Endowment Fund (IEF)

IIUM Endowment Fund is owned by IIUM and it was established in March 15, 1999 by the second sector as a result of needier international students who pursued their studies but fail to cover up the costs. The fund is young compared to the top five ones that started to operate before. At the moment the fund is benefiting both local and international students, the majority being local ones. These needy students may either be poor students who need help on basic needs, active students with overdue fees or graduates with overdue fees. Apart from providing scholarship and help to needy students, IEF as a University department/division is responsible for managing the fund since 1999. Its other objectives includes: apply for and receive different forms of waqf (movable or immovable), cash, shares, negotiable instruments, and others for education and research purposes; to promote research and publications in IIUM, to fulfil donors wishes within IIUM limits and to invest in sharia permitted areas (Laldin, 2008). Collections of the fund come from both internal and external sources, means within and outside activities. These sources are seven in the category, which includes general donation, zakat, cash and properties investment income, kafalah, one ringgit campaign, waqf and business activities, and other income (Mohd Rusli & Adeyemi, 2017).

IEF is governed by the Executive Committee which is chaired by the university rector. The Executive Committee has the power to approve or disapprove any decisions made by IEF management. Up to the end of 2016, this fund is valued at RM 10,628,379.89 approximately to $ 47,827,709.51 (IEF, 2017). Daily operation is under a general manager with his team which includes finance and investment manager, project manager, administration manager and training manager. The board has seven members chaired by rector which leads to role duality. Six of the members are male and one female. No independent member as all of them is related to IIUM. This executive committee meets should at least meet (3 times per year. However, where necessary they can conduct a meeting. Table 5, provides the composition of IEF board.

Conclusions

Based on the past 5 years’ trends of the top five UEF in respect of their endowment value and investment return, it is observed that there is an increase in their endowment values yearly. For the investment return rate, in all UEF there are fluctuations. Given the good investment performance of these UEF, the investment team and the executive are among the contributing factors for that. Since most of these endowment funds tend to ensure availability of skilled personnel in investment for daily management
of the fund as well as to oversee of the management, such that some members of the board should possess investment skills/knowledge.

Going by the review of the selected universities endowment funds discussed above, the following conclusion could be drawn.

The Fund Board of Director follows two patterns; one-tier and two-tier board. While the former is comprising individual employee of affected universities, the later has a special team otherwise referred to as investment committee that was given absolute authority to formulate, implement, and management of the funds on behalf of the universities. As part of two tiers, there are funds that was registered as the legal entity that are subsidiaries to the university. Also, most of the funds invest mainly on real estate and that justify the board members to have a requisite professional qualification and working experience in the finance industry. The board could also be seen to be diverse along the gender in most of the funds reviewed. The average meeting period in a given year is 4 times. Table 6, provides brief descriptions of Universities’ Endowment Funds Board Structure.

**Lesson for Endowment Fund in the Islamic University**

While there would not be absolute recommendations based on the composition of the governance structure for the endowment fund in Islamic university, the following suggestions could be relevant. The management of the fund should be separated from
Table 6  Brief descriptions of universities’ endowment funds board structure

<table>
<thead>
<tr>
<th>University’s endowment fund</th>
<th>Board structure</th>
<th>Board size</th>
<th>Gender</th>
<th>No of meetings per year</th>
<th>No. of independent board</th>
<th>Duality role</th>
<th>Fund value (2017) $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard Endowment Fund</td>
<td>Two-tier board University Board &amp; Harvard Mgmt. Company (HMC) Board</td>
<td>11</td>
<td>8-male, 3-female (2017)</td>
<td>4</td>
<td>6</td>
<td>Yes Chairperson and Treasurer</td>
<td>37.1 billion</td>
</tr>
<tr>
<td>Yale University Endowment Fund</td>
<td>Single-tier Yale Corporation (Board of Trustee) and Yale Investments Committee</td>
<td>12</td>
<td>10-male, 2-female</td>
<td>4</td>
<td>9</td>
<td>None</td>
<td>27.2 billion</td>
</tr>
<tr>
<td>University of Texas Endowment Fund</td>
<td>University of Texas Investments Mgmt. Company</td>
<td>9</td>
<td>8-male, 1-female</td>
<td>5</td>
<td>6</td>
<td></td>
<td>26.5 billion</td>
</tr>
<tr>
<td>Princeton University Endowment Fund</td>
<td>Single-tier Board of Trustee &amp; Princeton University Investment Company (PRINCO)</td>
<td>12</td>
<td>9-male, 3-female</td>
<td>4</td>
<td>5</td>
<td>Yes Chairman and Audit committee</td>
<td>23.8 billion</td>
</tr>
</tbody>
</table>

(continued)
Table 6 (continued)

<table>
<thead>
<tr>
<th>University’s endowment fund</th>
<th>Board structure</th>
<th>Board size</th>
<th>Gender</th>
<th>No of meetings per year</th>
<th>No. of independent board</th>
<th>Duality role</th>
<th>Fund value (2017) $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stanford University Endowment fund</td>
<td>Two-tier Board of Trustee and Stanford Mgmt. Company (SMC)</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>None</td>
<td>26.9 billion</td>
</tr>
<tr>
<td>IIUM Endowment Fund (IEF)</td>
<td>Executive committee</td>
<td>7</td>
<td>6-male, 1-female</td>
<td>3</td>
<td>No independent member</td>
<td>Yes Chairman &amp; Rector</td>
<td></td>
</tr>
</tbody>
</table>
the university management. This would ensure that the latter would concentrate on the core academic area while the experts could be hired to manage the fund. The board size could be based on activities and the amount of fund, the size could be set between 5 and 10 members. Being an Islamic university endowment fund that would be more of sharia’ compliance, the board members should be knowledgeable in the area of sharia and Islamic finance. Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the fund.

References


Laldin, M. A. (2008). Waqaf in education funding: The experience of international Islamic University Malaysia in managing endowment (Waqaf) fund (pp. 1–31).


Corporate and *Shariah* Governance Mechanisms and Earnings Quality in Islamic Banks: A Review and Evaluation of Patterns

Siti Fariha Muhamad and Zunaidah Sulong

**Abstract** This paper aims to review and evaluate patterns of past literatures on *Shariah* governance regulatory framework, characteristics of *Shariah* governance mechanisms, and its relationship with the financial reporting quality. *Shariah* governance has been the main subject of numerous studies in Islamic banking for the past few years. Specifically, this paper focuses on cross-country empirical studies. An electronic search was utilized to identify the relevant studies using the key words such as “Islamic banking” and “corporate governance” or “*Shariah* governance” or “Islamic banking” and “earnings quality”. The paper has identified various types of *Shariah* governance regulatory frameworks have been established across the Islamic banking operating countries depending on the country’s needs, the economic market as well as law and regulation. Board of Directors (BOD) and *Shariah* Supervisory Board (SSB) are the most examined mechanisms in which BOD’s characteristics of size, independence director, and duality role and SSB’s characteristics of size, member’s expertise, cross-membership become the main focuses of the studies. Overall, the evidence show mixed results but still limited. The measurements of the earnings have been proxied by discretionary accrual, loan loss provision, and earnings loss avoidance. It is concluded that the *Shariah* principles embedded in the operation of the Islamic bank and the presence of an additional layer of *Shariah* governance impact the managerial behaviour of Islamic banking. As such, this review of literature is hoped to shed light on the past studies of characteristics of corporate and *Shariah* governance mechanisms and serve as a preliminary study to further research this topic in the future.

**Keywords** *Shariah* governance · *Shariah* board · Corporate governance · Financial reporting quality · Islamic financial institutions

S. F. Muhamad
Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kota Bharu, Malaysia

Z. Sulong (*)
Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin, Kuala Terengganu, Malaysia
e-mail: zunaidah@unisza.edu.my; zunaidahzs@gmail.com
Introduction

Corporate governance of Islamic banking keeps attracting the increasing interest of many researchers, due to the uniqueness of its dual-layer structure; the existence of Shariah governance as an additional layer of governance in complementing the existing corporate governance framework. Shariah governance serves the purpose of ensuring Shariah compliance aspect in the Islamic banking operation as well as protecting the rights and interest of all stakeholders. The conception of Islamic banking corporate governance in Islamic banking receives dissenting debates. According to Hamdi and Zarai (2014), Islamic banking’s corporate governance mechanisms and tools resemble its conventional counterparts as it is emulated from conventional corporate governance framework. Meanwhile, Magalhaes and Al-Saad (2013), on the other hand, contend that Islamic banking’s corporate governance is totally different and its objectives beyond sustaining the trust from the stakeholders and ensure the Shariah compliance. In a similar vein, Grassa and Matoussi (2014) explain that the difference is pertinent to the reason that many parties are involved in the Islamic banking’s governance structure including Islamic society as part of the stakeholders. Nevertheless, a proper and effective corporate and Shariah governance eventually strengthens the growth, performance, and sustainability of Islamic banks (Ajili & Bouri, 2018).

Islamic banks have proven to be immunized and more profitable than their commercial counterparts prior and during the Global Financial Crisis (Olson & Zoubi, 2017). Many researchers attribute these findings to corporate governance structures of the Islamic banking sector (Kolsi & Grassa, 2017). Corporate governance and Shariah governance mechanisms of Islamic banking becomes the interest topic of the researchers because Islamic banks are also not exempted from the issue of corporate governance failure that leads to the prominent cases of collapse and financial difficulties such as Islamic Bank of South Africa (1997), Ihlas Finance, Turkey (2001) as well as Dubai Islamic Bank and Bank Islam Malaysia Berhad (2005). Notably, recent studies on the corporate governance focus on the transparency and accountability of the financial reporting after the introduction of new acts on corporate governance intended to enhance the quality of financial reporting (Al-Shetwi, Ramadili, Chowdury, & Sori, 2011). In this regard, Islamic banks are demanded to disclose ample qualitative and quantitative information as Islamic banks (IBs) are expected to disclose more than their conventional counterparts, especially on Shariah compliance part (Shariff & Rahman, cited in Wan Abdullah, 2013). The studies on the corporate governance in conventional banks and nonfinancial firms are numerous (for example, Hla & Md Isa, 2015; Houque, van Zijl, Dunstan, & Karim, 2012) unlike Islamic banks, where it remains limited and under-investigated (Ajili & Bouri, 2018; Kolsi & Grassa, 2017).

The quality of financial reporting, especially with respect to the preparation and presentation, is reflected in the level of adherence to the adopted accounting standard. However, there is no ubiquitous argument on the interpretation of financial reporting quality and the measurements are difficult due to many intrinsic factors including...
different financial reporting environments, regulations, procedures, and understanding as well as complex interactions of many factors (Tang, Chen, & Lin, 2016; Zheng, 2010). The higher level of financial reporting quality may provide higher quality information in which good and effective corporate governance are reflected in order to cater for the need of the investors in the capital market (Hla & Md Isa, 2015).

Given the substantial importance placed to corporate governance mechanisms in ensuring quality financial reporting, this paper provides insights into the Shariah governance regulatory framework of Islamic banking across various countries based on the study of prior researchers. The Shariah governance roles of monitoring and control mechanisms are unique due to; (1) Islamic bank must adhere to Shariah rules and principles, (2) the stakeholders of Islamic banks are broader than its conventional counterparts, and (3) the heavy regulation of banking nature (Rahim & Rahman, 2015). The present paper extends the empirical review of literature on the characteristics of the corporate and Shariah governance in light of a few areas including the main focus of this review, which is earnings quality.

A synthesis of literature reviews shows that; (1) SSB at the national level has more authority to establish proper Shariah governance framework, (2) empirical study mostly focuses on the BOD and SSB characteristics, (3) Islamic banks are less likely to manage and manipulate earnings. The literature review combines major cross-country conceptual and empirical study on the Shariah governance regulatory framework, characteristics of corporate and Shariah governance mechanisms, as well as financial reporting quality starting over the period 2010 onwards. In addition, it documents that other mechanisms of corporate governance such as Shariah governance, Shariah audit and Shariah review also demand a further empirical investigation. Besides, it can be concluded that for corporate and Shariah governance characteristics, most of the reviewed studies use hand-collected data from the annual report, meanwhile, financial reporting quality is proxied by the financial data, which are mostly sources from financial databases such as ZAWYA and Bankscope as well as individual Islamic bank’s annual report.

This literature review attempts to summarize the trend of past empirical dealing with the characteristics of corporate and Shariah governance. It also contributes to the extant literature by providing suggestions for future research. The objective of this paper is to present an overview of the Shariah governance and its regulatory frameworks, how it has been established across the countries practicing Islamic banking based on the review of past literature. Moreover, this paper highlights the mixed findings on the relationship between the characteristics of Islamic banking dual-layer governance mechanisms and earnings quality as proxied by financial reporting quality. The rest of this paper is organized as follows: Sects. 2 and 3 discuss a brief overview on the Islamic banking industry, followed by a review of literature on the Islamic banking and Shariah governance characteristics, as well as its relationship with earnings quality. Section 4 concludes the paper.
Islamic Banking Industry: A Brief

Islamic finance industry has been growing tremendously since the establishment of remarkable first Islamic interest-free bank in Egypt; Mit Gharar in 1963. Despite the project’s success, it did not sustain along the time due to some political reasons. However, it marks a remarkable milestone to the development of Islamic finance industry and since then, Islamic finance has been practiced predominantly by the Muslims around the world. According to Islamic Financial Services Industry Stability Report 2016, the total assets of this industry has reached USD 1.88 trillion as of 2015, comprising of 1 percent of the global financial market and keeping track to outpace its conventional counterparts. Islamic financial system comprises of major components, which are Islamic financial institutions; comprises of Islamic banks as well as takaful company and main market; Islamic equity market as well as the Islamic money market. There are approximately 300 Islamic banks around 75 countries in the world (Bukhari, Awan, & Ahmed, 2013).

Islamic financial system is different from the conventional system in terms of principles, legal supervision and regulation as well the governance mechanisms. In terms of principles, Islamic banking is underpinned on the Islamic economic philosophy derived from Shariah law, where the sources are divine revelations from al-Quran and as-Sunnah. The concepts of equity participation, profit loss sharing are highly encouraged and elements of riba (interest) are strongly prohibited as well as other elements of gharar (uncertainty), maysir (gambling), and haram (prohibited) goods. Thus, Islamic financial institutions are restricted from offering financial products similar to their conventional counterparts because of the prohibition of riba element. Islamic banking products must conform to the provision of Shariah (Islamic Law). Some of the Shariah aligned products that have been introduced are; profit and loss sharing products (Mudarabah and Musharakah), mark-up-based products (Murabahah), leasing (Ijarah), and Islamic bonds (Sukuk) (Rammal & Parker, 2010)

The regulatory framework and legal supervision of Islamic banking vary across the countries. In general, Islamic banking system either operates in full-fledged Islamic financial system such as Sudan, Iran, and Pakistan and some of the Islamic banking in certain countries including Malaysia, Saudi Arabia, Iran, Turkey, Indonesia and Brunei operates in parallel to the conventional counterparts under dual-financial system whereby there are provisions and separate guidelines and regulations are enacted and issued to cater the operation of Islamic banking. In addition, there is also a separate independent regulatory framework specifically developed for Islamic banking (Majid & Ghazal, 2012).
Shariah Governance Regulatory Framework

Overview

In the context of Islamic banking, the objective of the good corporate governance is widened than the conventional bank, it covers the relationship between the humankind which is to serve the rights and interests of all stakeholders and most importantly, the ultimate one is to obey and preserve the relationship with The Creator. The Shariah principles attach in the business transactions, financial products and contracts offered by Islamic bank made them substantially complexes than their conventional counterpart. These complexities affect its corporate governance structures and agency conflicts that eventually accelerate the problem of information asymmetry (Abdelsalam, Dimitropoulos, Elnahass, & Leventis, 2016; Al-Nasser Mohammed & Muhammed, 2017). This information asymmetry instigates agency cost between the depositor and the IBs, hence compromising the quality in the financial reporting (Abdelsalam et al., 2016). In addition, noncompliance to the Shariah principles exposes Islamic banks to the Shariah noncompliance risks. The risk of Shariah noncompliance not only can hit the continuation of Islamic bank’s activities but also cause financial turmoil to the Islamic financial system as a whole (Grassa, 2015; Grassa & Matousssi, 2014). Thus, the existence of these additional risks justifies the need of having Shariah governance as an additional layer of governance to the existing corporate governance in order to fully achieve the objectives of the Islamic bank’s corporate governance.

Shariah governance is unique institutional governance that only exists in Islamic financial institutions (IFIs). Islamic Financial Service Board (IFSB, 2009) defines the Shariah governance system as “a set of institutional and organizational arrangements through which Islamic banks ensure that there is effective independent oversight of Shariah compliance over the issuance of relevant Shariah pronouncements, dissemination of information and an internal Shariah compliance review.” The purpose of Shariah governance is to ensure that Islamic banks operate in conformity with Shariah guidelines and principles (Grassa, 2015; Rammal & Parker, 2010; Safieddine, 2009). The unique characteristics of Islamic banks especially in terms of distinguish philosophical aspect, including objectives of the bank, nature of contracts involved, key players in the corporate governance practice and the relationships between the players (Hamdi & Zarai, 2014) as well as finance models, investment modes, and contracts trigger different governance issues in Islamic banks (Abdelsalam et al., 2016) that eventually justify the existence of the mechanism and tool of Shariah governance.

The main mechanism of the Shariah governance is the Shariah Supervisory Board (Mollah & Zaman, 2015; Grais & Pellegrini, 2006) that is responsible to ensure that Islamic banking is Shariah compliant. In fact, it is the most discussed in the literature related to Islamic banks. In essence, there are other key Shariah compliance functions which are Shariah audit, Shariah review, Shariah risk management, and Shariah research that are considered as part of the Shariah internal control process that must
be in place to meet religious requirements or Shariah compliance in all aspects of Islamic banks’ business operations and transactions. Thus, it can be concluded that governance matters pertaining to Islamic banking are inevitably incomparable with its conventional counterpart due to the differences of Islamic banks in many terms including philosophical aspects, objectives of the bank, natures of contract involved, key players in the corporate governance practice as well as the relationships between the players (Hamdi & Zarai, 2014).

Shariah supervisory board comprises of scholars or experts who have immense knowledge of both Islamic jurisprudence and finance (Rahim & Rahman, 2015). Their responsibilities include providing guidance, supervision and monitoring the compliance of Shariah rules and principles in Islamic banks activities and transactions, as well as issuing Fatwas regarding the products and practices employed by banks (Rahim & Rahman, 2015). Meanwhile, Shariah audit and Shariah review are classified as part of Shariah compliance function. According to Shariah Governance Framework of Bank Negara Malaysia (BNM), Shariah audit is referred to the periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to assess its value and improves the degree of compliance in relation to the IFI’s business operation.

In addition, the scope of Shariah audit shall cover all aspects of the IFI’s business operation and activities, including audit of financial statement of the IFIs, compliance audit on organizational structure, people, process and information technology application system, as well as review of adequacy of the Shariah governance process. Notably, AAOIFI defines Shariah review as an examination of the extent of an IFI’s compliance in all its activities including the contracts, agreements, policies, products, transactions, memorandum and articles of association, financial statements, reports (especially internal audit and central bank inspection), circulars, etc. In conclusion, Shariah audit is referred to the task in relation to the compliance audit and audit process of financial statement while Shariah review is referred to the process reviewing the extent of IFI’s activities are compliance with Shariah.

**Shariah Governance Regulatory Framework in the Literature**

The regulatory framework of Shariah governance in the Islamic bank is varied across countries. Past studies provide insights into the various regulatory frameworks of Shariah governance across different countries. To date, a study by Grassa (2015) provides a complete discussion on the different practices and regulatory frameworks of Shariah supervision in IFIs across 25 countries of the Organization of Islamic Cooperation (OIC) member states. According to Garas and Pierce’s, Shariah supervision had different forms at macro and micro levels, in which at the macro level, a Shariah Supervisory body conducts Shariah supervision within and outside the Central Banks while at the micro level, it is conducted by either Shariah body or a Shariah advisor. Essentially, in the absence of a well-conceptualized framework, these regulations are based fundamentally on respective countries’ needs and
experiences (Grassa, 2015). Grassa (2015) further classified Shariah governance regulatory frameworks into the following three different types:

1. comprehensive, both national and institutional level,
2. institutional level, and
3. institutional voluntary initiatives and market’s influence.

Alman (2012) categorized different approaches of Shariah governance structure to either centralized or decentralized. Centralized structure of Shariah governance directs Shariah governance at a national level, as practiced by Southeast Asia countries like Malaysia. This refers to the comprehensive types of Shariah governance regulatory framework as reported by Grassa (2015). Hence, the decentralized Shariah governance structure is referred to as the model practiced by the Gulf Cooperation Council (GCC) countries where it is governed independently at the institutional level. It is asserted that the decentralized model of Shariah governance is more intrigued toward market and innovation orientation to suit a more competitive bank market of countries in the GCC countries. As noted by Hasan (2011), GCC countries adopt less regulatory interference on the market. However, despite less interference from regulatory authorities as compared to Malaysia—a country which practices a centralized model of Shariah governance that advocates regulation-based approach, IFIs in GCC countries proactively developed their own Shariah governance frameworks as well as Shariah guidelines and standard processes on Shariah compliance (Hasan, 2011; Hasan, 2014).

Countries practices comprehensive Shariah governance regulatory framework such as Malaysia, Indonesia, Brunei, Bahrain, Pakistan, Iran, Sudan, Nigeria, and Palestine have national Shariah board either at the central bank, securities commission or government body. Meanwhile, Syria, Oman, Yemen, Libya, and Iraq are among those countries with Shariah supervisory regulatory framework at the institutional level whereas Saudi Arabia, Turkey, Egypt, Morocco, Tunisia, Libya, Thailand, and Kazakhstan are among the countries with no Shariah supervisory regulatory framework (Grassa, 2015).

Wardhany and Arshad (2012) make a further comparison of the countries that adopt centralized models of Shariah governance. They investigate the roles of the Shariah board in three countries adopting comprehensive Shariah governance regulatory framework, which are Malaysia, Indonesia, and Brunei. Malaysia precedes its neighbors with the establishment of Shariah Governance Framework in 2011. Their findings suggest that those countries follow the same procedure in terms of appointment, independence, qualification criteria, legislative infrastructure as well as remuneration. The difference lies in the production process flow whereby the functions of Shariah board in Malaysia covers ex-ante as well as ex-post product approval process while in Indonesia, Shariah board is responsible to bring forward the problem arising to them to the National Shariah Council plenary meetings.
Corporate and Shariah Governance Characteristics

To date, most of the empirical studies on the corporate and Shariah governance mainly focus on the characteristics of its mechanisms as determinants measurement (see, Ajili & Bouri, 2018; Ali & Azmi, 2016; Mollah, Hassan, Al Farooque, & Mobarek, 2017; Mollah & Zaman, 2015; Wan Abdul, 2013). Corporate and Shariah governance characteristics have been widely measured in the literature either as a single indicator or cumulatively as an index. The indices are constructed either by the weighted or unweighted method. Past researchers have dissenting opinions on this issue. For instance, Verriest et al. (2013) as cited in Ajili and Bouri (2018) presume that aggregated indices are more accurate in measuring governance quality than single indicators.

On the contrary, Farook, Hassan, and Lanis (2011) assert that index is not informative as the effect of every single variable or indicator because it is intended to measure the combined effects of the different sub-variables. The characteristics of corporate governance are used to measure the impact of the characteristic itself or proxy to the determinants, its aggregate quality and effectiveness of corporate governance (Ajili & Bouri, 2018).

Both internal and external corporate governance mechanisms characteristics trigger researchers’ interest and they are discussed in relation with few different areas including performance, risk behavior, corporate and Shariah governance disclosure, efficiency, risk-taking behaviour, and earnings management. Board of Directors and audit committee are the most crucial organs in the internal mechanisms that are also a major interest in the past literature. Both international as well as country-level corporate governance standard pronounces specifically the requirement for both mechanisms. Among the characteristics of Board of Directors that are mostly discussed in the literature are sizes, independence, meeting attendance, gender proportion, and CEO duality. While for the audit committee, size, meeting attendance, the expertise of members and gender proportion are among the characteristics that are widely examined.

Notably, the Shariah board is the Shariah governance mechanisms that are mostly discussed in the literature. Grais and Pellegrini (2006) describe it as the major instrument that differentiates the corporate governance structure of Islamic bank from its conventional counterpart and should be responsible for ensuring the Shariah compliance of Islamic banks. To date, most of the past studies on the characteristics of the Shariah board are mostly concerns on sizes, meeting attendance, gender proportion, background of SSB members, members’ interlock, and its remuneration and fees (Hamdi & Zarai, 2014; Grassa & Matousssi, 2014, Quttainah, Song, & Wu, 2013).
Shariah Governance Characteristics and Earnings Quality in the Literature

This section reviews the major literature dealing with the characteristics of corporate and Shariah governance that focus specifically on the earnings quality. Past studies use various proxies to measure earnings quality depending on the research context, purpose of study, and type of data (Makke, 2016). The studies of Kolsi and Grassa, (2017), Abdelsalam et al., (2016), Hamdi and Zarai, (2014), Mersni and Othman, (2016), and Quttainah et al., (2013) are chosen because they adopt cross-country analysis.

Mohamed Hamdi and Zarai (2014) examine corporate and Shariah governance characteristics for a sample of 90 Islamic Banks over the period of the years 2000–2009. Based on the agency theory, BOD size, SSB size, and SSB embeddedness are corporate and Shariah governance characteristics variables being investigated. In this study, an earning is measured by the net distributable profit divided by the total assets at the beginning of the period. Results show that the larger IBs tend to have a larger size of SSBs as well as larger BODs and the presence of in-house Shariah Supervisory Board is more effective and significant in mitigating the earnings management in Islamic banks. This finding suggests that institutional level Shariah supervision influences the decision of the management. However, the characteristics of Shariah Supervisory Board (AAOIFI membership and size) have no effect on the earnings management intensity.

These findings are absolutely contrary to the prior study of Quttainah et al., (2013). Their study provides evidence that there is no significant difference between IBs with in-house SSB or without in-house SSB in terms of earnings management. Using earnings, loss avoidance and abnormal loan loss provision as earnings management measurement and based on sample of IBs of 11 countries covering 16 years from 1994 to 2008, they further document that SSBs characteristics, which are size, AAOIFI, and outside board members, are important determinants of the earnings management for Islamic banks with SSBs (Quttainah et al., 2013).

Alternatively, Abdelsalam et al., (2016) make a comparison of 24 IBs and 76 its conventional counterparts in the Middle East and North Africa (MENA) region during 2008–2013. In this study, the authors investigate the characteristics of board independence and CEO duality and earnings quality are measured using small positive income, loan loss provisions (LLPs), realized security gains, and losses and discretionary accruals. Results show that IBs recognize more LLPs relative to non-performing loans and loan charge-offs, report small positive income less frequent and lower discretionary LLPs relative to discretionary security gains and losses as well as more likely to employ the Big 4 auditors compared with their conventional counterparts. Hence, Abdelsalam et al., (2016) reach the conclusion that religious norms embedded in the unique governance framework of Islamic banks suppress the managerial opportunistic behaviour.

Finally, the latest study by Kolsi and Grassa (2017) examine the linkage between the corporate and Shariah governance characteristics of 26 Islamic banks in GCC
using the discretionary loan loss provision (DLLP) of the original model of Jones’ (1991). Using SSB size, SSB AAOIFI membership, BOD independence, block holders, audit committee meetings as determinants, their empirical findings reveal that large Shariah board size manage less DLLP while AAOIFI membership positively impacts earnings management through DLLP in IBs. In addition, there is a negative relationship between boards of director’s independence and the number of audit committee meetings with the extent IBs manage DLLP. Controlling for the bank risk and bank size, they document that prior year LLP variation is negatively related to the DLLPs and the natural logarithm of total assets has no effect on the magnitude of DLLPs.

Nevertheless, it is in contrast with the result of Mersni and Othman (2016). Using the measurement of DLLP derived from the original Jones (1991) model, their study based on 21 IBs and 18 conventional banks of seven countries in the Middle East region for the period 2000–2008 examining on the SSB size and expertise of the members. Their findings show that the size of SSB has a positive relationship with DLLP and the existence of scholars with accounting knowledge sitting on the Shariah board reduces discretionary behavior. The result further indicates that the external Shariah audit committee is part of the effective corporate governance mechanism.

Overall, in reference to these previous findings, it is concluded that the characteristics of corporate governance and Shariah governance mechanisms provide significant impact to the behaviors of management of IBs and eventually will affect the performance, risk-taking behavior, efficiency, and financial reporting quality of IBs. In fact, individual country’s legislation and regulatory framework on the IBs governance structure influence the characteristics of the corporate governance and Shariah governance mechanisms. For example, Alman (2012) opines that the effectiveness and power of SSBs toward risk-taking behavior in GCC countries are negatively affected by their decentralized Shariah governance structure.

**Conclusion**

The aim of this paper is to provide a review stream past literature on the Islamic banking governance system, characteristics of the corporate and Shariah governance mechanisms focused to the stream of studies dealing with the earnings quality. Based on the extent of literature, the characteristics of the corporate mechanisms inevitably influence the quality of the financial information.

Shariah governance is an important mechanism for ensuring business transactions and the operation of Islamic banking are Shariah compliance. Non-Shariah compliant risk exposes the bank to the moral hazards that eventually lead to the instability of the financial system. It is noteworthy that the Shariah governance mechanisms stream of research in IBs mainly focuses on the Shariah board characteristics. SSB is the most important component of the Shariah governance system and provides the most important influence on the IBs’ daily operation (Hasan, 2012, 2014). Shariah board responsibility covers ex-ante and ex-post aspects of Shariah governance.
Corporation and Shariah Governance Mechanisms …

governance including Shariah pronouncement (fatwa), supervision (raqabah), and review (mutabaah) (Hasan, 2011, 2014). It should be noted that other mechanisms of Shariah governance which are both internal and external unit of Shariah audit, Shariah review as well as Shariah compliance also simultaneously affect the fulfillment of the religious requirement of Shariah compliance in the aspects of the business transactions and operations. For instance, the study on the internal Shariah audit and internal Shariah review characteristics and roles as part of the internal audit function are really scarce and limited.

This review reveals the following issues. First, the research stream on the characteristics of Islamic banking corporate and the Shariah governance mechanisms are still scarce. Second, there is an ample room to explore on new variables in relation to characteristics of corporate and Shariah governance by assessing other mechanisms of internal and external corporate and Shariah governance such as external auditor and internal Shariah audit. Third, since this study focuses on the cross-country regions, there are some regions that remain unexplored. For instance, studies on IBs in the Southeast Asia region is still scant and at the infancy stage.

Therefore, the need for further research on the Islamic banking corporate and Shariah governance characteristics in the Islamic banking sector is imperative even though it is acknowledged that data collection process for cross-country analysis is quite difficult and tiresome. Finally, the present study concludes that corporate and Shariah governance play imperative roles in facilitating the dissemination of high quality financial information. The financial statement serves as the main instrument for the external stakeholders in their decision making process and the quality of financial reporting largely influence stakeholders’ level of confidence and trust.

References


IFSB. (2009). Guiding principles on Shari’ah governance system in institutions offering Islamic financial services. Kuala Lumpur: IFSB.


The Corporate Ethical Identity of Shari’ah Compliant Companies on Islamic Corporate Social Responsibility Disclosure

Syahiza Arsad, Roshima Said, Haslinda Yusoff and Rahayati Ahmad

Abstract The paper attempts to assess the level of Islamic corporate social responsibility (i-CSR) disclosure for the Shari’ah Compliant Companies (ShCCs) and to examine the relationship between the corporate ethical identity (CEI) of the ShCCs with the i-CSR disclosure. In doing so, the study developed an i-CSR disclosure index that was based on the CSR framework introduced by Bursa Malaysia in 2006 and incorporated it with the five values of Maqasid Shari’ah and Maslahah. In addition, this study employed the CEI index that was developed by Haniffa and Hudaib (Account Commer Financ: Islam Perspect J 6(1/2):1–71, 2007) and Said, Daud, Radjeman and Ismail (Procedia Econ Financ 7(Icebr):230–235, 2013). The content analysis was used in the study and a sample of 187 ShCC annual reports for the years ended 2008 until 2013 were used. In this study, the STATA was applied to assess the level of i-CSR disclosure and to test the relationship between CEI and i-CSR disclosure. Based on the descriptive analysis of the i-CSR disclosure, the result indicates that the level of i-CSR disclosure for the protection of faith (Al-Din), overall, was at a very minimal level. While the result of the relationship between CEI and i-CSR disclosure after being statistically controlled by firm size (proxied by total assets) and profitability (proxied by return on assets, net profit margin, and return on equity) showed that CEI was strongly significant at β = + 0.449, p < 0.01. Thus, it implies that the more the ShCCs emphasized their CEI as Islamic-based compa-
nies, the higher their i-CSn disclosure. Therefore, by providing the activities which achieve the dimensions of Maqasid Shari'ah and Maslahah that give benefits and meaning to the ummah, the image of the ShCCs will be improved.

**Keywords** Corporate ethical identity · Shari’ah compliant companies · Corporate social responsibility disclosure · Islamic ethics · Maqasid shari’ah and maslahah

### Introduction

The number of Shari’ah compliant companies (ShCCs) in Bursa Malaysia has increased tremendously since the introduction of the Islamic Capital Market (ICM) by the Malaysian Securities Commission in the year 1999. This phenomenon is in line with the Malaysia Plan, which requires Malaysia to become a global hub for ICM. In an attempt to win the trust and confidence of their Muslim investors and stakeholders, especially from the oil-rich Arab Gulf Region, who are currently flush with funds, the ShCCs must portray not only their sincerity but also their earnestness in complying with the Islamic values or Sha’riah principles. To further strengthen the ICM, Malaysia has realized that it needs to promote transparency and accountability by gaining the trust and confidence of the investors through the communication of quantitative and qualitative information (Ousama & Fatima, 2010). Quantitative information is a set of financial statements of the company; and it is a mandatory requirement for all public listed companies to disclose it in the annual report. While qualitative information is only voluntary disclosure and there is no standard or any legal requirement to be disclosed. Through voluntary disclosure, companies can communicate that they are not only focused on maximizing profits, but also have accountability to the community, society, and environment.

Islamic business organizations, such as ShCCs, that operate in a Muslim country should provide a greater amount of voluntary disclosure, particularly in social and environmental activities. Since ShCCs must conduct their activities according to the Islamic principles and values, it is a great significance to exercise corporate social responsibility (CSR) activities that can protect the benefits of the individuals and the community, as well as facilitate the improvement and perfection of human life in this world and the life in the hereafter. Hence, this paper aims to assess the level of Islamic corporate social responsibility (i-CSn) disclosure for 187 Malaysian ShCCs for the years ended 2008 until 2013.

Furthermore, ShCCs need to also go beyond the legal requirement in order to portray a good image, ethical values, and identity as Islamic business organizations. According to Ismail al-Qudsy (2007), there are several terms that have been used to represent the concept of ethical values and moral in the Quran, such as al-Khayr (goodness), al-Birr (righteousness), al-Qist (equity), al-Haqq (truth and right), al-Adl (justice), al-ma’ruf (known and approved), al-Taqwa (piety), al-Salihat (pious action), and Sayyi’at (sinful action). Allah (SWT) highly stresses about doing good, ethically and morally, in the routine life whether as a person or in conducting every
business transaction and activity in the companies. Since ShCCs have been categorized as Islamic business organizations, the corporate ethical identity (CEI) can be used to assess the degree of conformity of ShCCs towards Islamic business ethics. In order to gain recognition and build the confidence of various stakeholders, this paper expects that ShCCs disclose their business activities, social activities and other related transactions in the company annual reports. Transparency in the reporting of all activities and transactions are undertaken would help the ShCCs to promote their accountability and increase their corporate ethical identity as Islamic corporations. Hence, this paper also aims to examine the relationship of the CEI that is being incorporated by the ShCCs with the i-CSR disclosure.

Literature Review

**CSR in the Islamic Perspective**

CSR in Islam is a mandate from Allah as essential human tasks. The discussions of CSR are frequently mentioned in the Quran. Thus, this study introduces CSR from an Islamic perspective approach using a new philosophical framework that is guided by Shari’ah or Islamic law. It has covered all aspects of life including the personal, social, political, economic and intellectual dimensions of human beings, and it cannot be isolated from Islamic belief, values, and objectives (Iqbal & Mirakhor, 2004). Hence, it shows that CSR is an aspect that is required under Shari’ah in achieving benefits and preventing the harm of humankind. Therefore, any creation of wealth by Allah (SWT) should be utilized by individuals or organizations for the cause of Allah (SWT), and which definitely includes safeguarding the interests of stakeholders. Prophet Muhammad (PHUB) said:

> The one who looks after and works for a widow and for a poor person, is like a warrior fighting for Allah’s cause or like a person who fasts during the day and performs prayers all night.

The above indicates that Allah (SWT) highly commends the protection and safeguarding of the interests of all mankind. This is consistent with the objective of Shari’ah, which is to promote the well-being of all mankind, such as the welfare of the people, protecting and enhancing personal rights, property, wealth, etc. According to Imam Al-Ghazali, the objective of Shari’ah (Maqasid al-Shari’ah) is to promote well-being of all mankind which lies in safeguarding their faith (al-din), their human life (al-nafs), their intellect (al-aql), their posterity (al-nasl) and their wealth (al-mal); whatever ensures the safeguard of these five serves the public interest and is desirable (Al-Maisawy, 2006). These five values are the fundamental elements of a human being. In order to ensure all activities undertaken can protect the benefit of the individual and the community as well as facilitate the improvement and perfection of human life in this world and the life in the hereafter, the concept of Maqasid al-Shari’ah needs to be upheld all the time and to be prioritized accordingly. These five
values of the objective should be the building blocks or primary framework of every ShCC in conducting its business and social activities. In addition, it also provides a strong foundation in promoting Maslahah (benefits) and repelling harm from the people. As cited in Dusuki and Abdullah (2007), Imam Al-Ghazali defined Maslahah as “an expression for seeking benefit (manfa’ah) or removing something harmful (madarrah), and Maslahah is essentially the preservation of the five principles of Maqasid al-Shari’ah.” Imam Al-Shatibi classifies Maslahah into three categories, namely, daruriyyat (essentials), hajiyyat (complimentary), and tahsiniyyat (embellishment). These three categories indicate a ranking in the degree of importance, and it also summarizes the core objective of Shari’ah. Daruriyyat (essential) is the first category of Maslahah, in which, it refers to the necessary aspect of life that includes the five principles of Maqasid al-Shari’ah, which are religion, life, lineage, intellect, and property. The absence of this category will result in unnecessary adversity. The second category of Maslahah is hajiyyat (complimentary), which refers to the aspect of life that will complement the essentials of life. Tahsiniyyat (embellishment) is the last category of Maslahah and it refers to the positive ethics that can lead to the enhancement of life. Figure 1 shows the three levels or categories of Maslahah.

The pyramid of Maslahah as shown in Fig. 1 reflects a framework and general guideline that can be used by managers to discharge their responsibility and to resolve any ethical conflicts (Dusuki & Abdullah, 2007). The three levels of the Maslahah

![Figure 1: The pyramid of Maslahah](image-url)
The Corporate Ethical Identity of Shari’ah Compliant Companies … 37

pyramid signifies the degrees of importance in the fulfilment of any responsibility, and the pyramid can be applied to corporate social responsibility activities.

The incorporation of the three categories of *Maslahah* and five principles of *Maqasid al-Shari’ah* in all activities undertaken will greatly facilitate distinguishing an Islamic view of CSR from the conventional view (Jalil, 2006). This is because both *Maslahah* and *Maqasid al-Shari’ah* relate to “a set of norms, values and laws that make up the Islamic way of life” (Dusuki, 2008). Therefore, by incorporating the norms and values of the *Maqasid al-Shari’ah* and *Maslahah* components into the activities of ShCCs, it would help to enhance all the activities undertaken towards Islamic principles and values.

**Corporate Ethical Identity and i-CSR Disclosure**

CEI was defined by Berrone, Surroca and Tribo (2005) as “the set of behaviours, communications, and stances that are representative of an organization’s ethical attitudes and beliefs.” It portrays the ethical stance of the corporation and it provides a reference for stakeholders to compare their ethical claims towards the corporation. It also represents what the organization wants to communicate to its stakeholders (Scott & Lane, 2000).

Since ShCCs should be consistent with the Islamic values and principles, the organizations should incorporate the true Islamic ethical values in their corporate strategy, structure, communication and culture. This could help to differentiate the ethical identity of an ShCC from a non-ShCC. Haniffa and Hudaib (2007) developed a benchmark of ideal ethical identity based on the Islamic ethical business and Shari’ah framework for the Islamic Bank. While, Said et al. (2013) extended the work conducted by Haniffa and Hudaib (2007) to investigate the ideal corporate ethical identity of ShCCs. Since the business orientation of Islamic banking and ShCCs should be consistent with the principles of Islamic law, thus this study adopted, with some modification, the ethical identity benchmark introduced by Haniffa and Hudaib (2007) and Said et al. (2013) to measure the CEI of ShCCs. Thus, there have been four themes used as a measurement to compute how much ShCCs conform to the Islamic ethical values. The four themes are the underlying philosophy and values; the provision of Islamically acceptable activities, developmental and social goals and reviews by the Shari’ah Supervisory Board.

**Theme 1: The underlying philosophy and values**

Mission and vision are part of a corporate philosophy and values. A corporate vision outlines what an organization wants to be and it provides a direction for a company. ShCCs should portray that their commitments and direction are within or complying with Shari’ah principles. The Shari’ah is concerned with promoting justice and welfare in society (*al-adl* and *al-ihsan*) and seeking God’s blessings (*barakah*) with the ultimate aim of achieving success in this world and the hereafter (*al-falah*). Thus, accountability and transparency principles are perceived and expected to be greater

hajarsalwa@gmail.com
ShCCs. Recently, the major objective of organizations is no longer striving for the maximization of profits only, but it also extends to other elements that significantly affect their business operations, such as CSR. This shows that they are not only financially accountable, but also morally accountable for their business behavior.

Theme 2: Islamically acceptable activities
Allah (SWT) gives absolute freedom to humans, especially to earn their livelihoods. However, Allah (SWT) places a great emphasis on the code of what is lawful in every activity undertaken, especially for primary activities involving goods and services offered. This is because primary activities will bring a return to the company and it demonstrates whether the company has an Islamic identity or not. Therefore, ShCCs are expected to clearly define each of the products and services offered and indicate whether the products and services are approved by an accrediting body such as the Department of Islamic Development Malaysia (JAKIM). Islamically accepted products and services offered by ShCCs can represent the ethical identity as an Islamically based corporation. Thus, ShCCs are expected to communicate in the annual report about their products and services as well as any non-permissible activity involvement with a justification or reason for the involvement and the method of purification of the non-permissible activities.

Theme 3: Developmental and social goals
ShCCs are expected to be more socially responsible than non-ShCCs as the Shari’ah is concerned with promoting justice and welfare in society. One of the indicators of being ShCCs is their contributions to and management of zakah (religious levy) and saddaqa (charity). Zakah is one of the five pillars of the Islamic faith and it is an obligatory act. While saddaqa is voluntary in nature but it is allowed by Sha’riah for the benefit of society. Thus, Zakah and saddaqa become important instruments for social justice as they lead to the increase of prosperity in this world and the hereafter. Moreover, employees, debtors, and communities should also receive special attention to Islam. Therefore, ShCCs should treat their employees equitably, be lenient with their debtors and actively contribute to the community.

Theme 4: Reviews by the Shari’ah Supervisory Board
ShCCs are expected to have a Sha’riah Supervisory Board (SSB) in order to ensure every activity undertaken is in line with the Shari’ah principles and values. This will increase the integrity and image as an ShCC.

Since the number of ShCCs is rapidly increasing in Malaysia, the companies should exhibit their own CEI to differentiate them from non-ShCCs. Islamic teachings have strongly emphasized ethical values in all aspects of human life (Khan, 2009). With the integration of CSR, Scott and Lane (2000) found that an organization can raise the interaction among stakeholders and increase the organization’s contribution towards CEI. Tewari (2011) found that communicating CSR activities can help the organization to maintain its relationship with the stakeholders and projects a positive image to the public. While Bravo, Matute and Pina (2012) highlighted that corporate identity can be communicated through CSR. Every CSR activity that is undertaken and disclosed represents the CEI as an ShCC. Hence, the CEI can...
be promoted through disclosure since the information provided reflects the identity, image, reputation and accountability of the company toward society and also Allah Almighty. Thus:

**H1: There is a positive association between corporate ethical identity and i-CSR disclosure.**

**Method**

**Population and Sample Size**

Based on the population of 843 ShCCs approved and listed by the Shari’ah Advisory Council of the Securities Commission Malaysia, the sample size of each sector of the ShCCs, was chosen based on the firms that had maintained their position in the top 500 firms (by market capitalization) for the 6-year period from 2008 to 2013. According to Ahmed Haji and Mohd Ghazali (2013), larger firms tend to have a greater visibility and impact on society. Thus, these firms are more likely to disclose organizational activities in a way to respond to public pressures. Furthermore, companies that were under financial sectors were excluded and the companies that had unpublished annual reports were deleted in order to assure the comparability of the results. Therefore, the final sample of the selected ShCCs in this study was 187, resulting in a total of 1,122 companies. The following table illustrates the sampling procedure of this study (Table 1).

<table>
<thead>
<tr>
<th>Sampling procedure</th>
<th>No. of firms yearly observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms that were positioned in the top 500 companies (by market capitalization) for the 6-year period from 2008 to 2013</td>
<td>3,000</td>
</tr>
<tr>
<td>Firms that had not maintained their position in the top 500 companies (by market capitalization) for the 6-year period from 2008 to 2013</td>
<td>1,190</td>
</tr>
<tr>
<td>Firms that had no completed annual report published in the 6-year period from 2008 to 2013</td>
<td>688</td>
</tr>
<tr>
<td>Final sample</td>
<td>1,122</td>
</tr>
</tbody>
</table>
Process of Constructing Independent Variables (Corporate Ethical Identity)

The independent variable in this study was a CEI. The CEI that was employed was developed by Haniffa and Hudaib (2007) and Said et al. (2013) (Table 2). In this study, there were four CEI themes used, namely, the underlying philosophy and values, Islamically acceptable activities, developmental and social goals and reviews by the Shari’ah Supervisory Board. The numbers of the items used in this study for the four themes are shown below.

Scoring the CEI Index

This study has developed a CEI index by adding all of the items of the four themes. In this study, the CEI index was developed by using the nominal score to record the absence (represented by “0”) or the presence (represented by “1”) of an item which is called the un-weighted approach. A total score for each CEI theme in the checklist was computed by adding the scores of all of the items within the four themes. A total score was also awarded to the total CEI by adding the scores of all of the themes to derive an aggregate score for the company. Subsequently, the total CEI was calculated as the percentage of the actual score awarded to a company to the maximum applicable score (i.e., 1 × 50 items = 50). Thus, the scores had been calculated as follows:

<table>
<thead>
<tr>
<th>Themes</th>
<th>Total items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme: underlying philosophy and values</strong></td>
<td></td>
</tr>
<tr>
<td>Dimension: vision and mission statement</td>
<td>8</td>
</tr>
<tr>
<td>Dimension: board of directors and top management</td>
<td>12</td>
</tr>
<tr>
<td><strong>Theme: Islamically acceptable activities</strong></td>
<td></td>
</tr>
<tr>
<td>Dimension: Product</td>
<td>5</td>
</tr>
<tr>
<td><strong>Theme: developmental and social goals</strong></td>
<td></td>
</tr>
<tr>
<td>Dimension: zakat and charity</td>
<td>7</td>
</tr>
<tr>
<td>Dimension: employees</td>
<td>5</td>
</tr>
<tr>
<td>Dimension: debtors</td>
<td>2</td>
</tr>
<tr>
<td><strong>Theme: reviews by Shari’ah supervisory board</strong></td>
<td></td>
</tr>
<tr>
<td>Dimension: Shari’ah supervisory board</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total items for four themes</strong></td>
<td>50</td>
</tr>
</tbody>
</table>

Table 2  Total items in the corporate ethical identity index (CEII)
The Corporate Ethical Identity of Shari’ah Compliant Companies … 41

\[ \text{CEII}_j = \frac{\sum_{t=1}^{Nj} \text{Xij}}{Nj} \]

<table>
<thead>
<tr>
<th>CEII j</th>
<th>Corporate Ethical Identity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nj</td>
<td>Number of items expected for the company nj ≤ 50 items</td>
</tr>
<tr>
<td>Xij</td>
<td>of “1”, if the company had disclosed the items and “0”, if it had not</td>
</tr>
</tbody>
</table>

**Process of Constructing the i-CSR Disclosure Index and Content Analysis**

The items of the i-CSR checklist were constructed based on the four themes of the CSR framework that was established by Bursa Malaysia in 2006, and the items were developed based on previous studies conducted by Ousama and Fatima (2010), Sulaiman (2005), Haniffa (2002), Othman, Thani and Ghani (2009) and Maali, Casson and Napier (2006). In addition, annual reports from Middle East countries and Malaysian companies which were the winners of the Prime Minister’s CSR Award in 2009 and 2010, such as Telekom Berhad, were also referred to in constructing the i-CSR index. Since the i-CSR index is used to check voluntary disclosure, all the mandatory items required by the approved Accounting Standard, Companies Act, 1965 and Bursa Malaysia Listing Requirement were eliminated in the i-CSR index.

Although several studies had developed items for the i-CSR index, there is limited research classifying the items into the five dimensions of the Maqasid al-Shari’ah, namely, the protection of faith, protection of human life, protection of posterity, protection of intellect and protection of wealth. Thus, the i-CSR index was sent to Shari’ah experts (academicians and practitioners) to verify all the selected items according to the Maqasid al-Shari’ah.

In this study, the i-CSR Disclosure index was developed by using the nominal score to record the absence (represented by “0”) or the presence (represented by “1”) of an item, which is called the un-weighted approach. The next step was to determine all of the items, especially the presence items which were represented by “1” with the level of Maslahah, namely, essential (Daruriyyat), complementary (Hajiyyat) or embellishment (Tahsiniyyat). These three categories of Maslahah reflect the different degrees of responsibility fulfilment, thus it was represented in a 1–3 rating scale. Essential (Daruriyyat) is a very important element in Maslahah, therefore, the rating scale for essential (Daruriyyat) was 3 = very important. While the rating scale for complementary (Hajiyyat) was 2 = important and embellishment (Tahsiniyyat) was 1 = slightly important. After that, each of the presence items was multiplied with the scale of the Maslahah. Lastly, the process added together all of the scores which were then, equally weighted. The scores were calculated as follows:

hajarsalwa@gmail.com
\[ i\text{-CSRDI}_j = \frac{n_j \sum t = 1 X_{ij} \times M_{ij}}{N_j \times 3} \]

<table>
<thead>
<tr>
<th>i\text{-CSRDI}_j</th>
<th>Islamic Corporate Social Responsibility Disclosure Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>N_j</td>
<td>Number of items expected for the company n_j ≤ 93 items multiplied with the highest level of Maslahah</td>
</tr>
<tr>
<td>X_{ij}</td>
<td>of “1”, if the company disclosed the items and “0”, if it did not</td>
</tr>
<tr>
<td>M_{ij}</td>
<td>of “3” if the items were Essential, “2” if the items were Complementary and “1” if Embellishment</td>
</tr>
</tbody>
</table>

**Results**

*Descriptive Statistics*

The descriptive statistics through content analysis was used to describe the presence or absence of the 93 i-CSR disclosure items. The items of i-CSR disclosure were classified into the five dimensions of *Maqasid al-Shari’ah*. The descriptive statistics included statistics such as the minimum, maximum and mean for each of the dimensions in the four themes of the i-CSR Disclosure index. Table 3 shows the results of the i-CSR disclosure themes that were classified based on protection of faith (*al-din*), protection of human life (*al-nafs*), protection of intellect (*al-aql*), protection of posterity (*al-nasl*) and protection of wealth (*al-mal*).

The above results reported that each of the four themes of the i-CSR disclosure was classified into the five dimensions of the *Maqasid al-Shari’ah*. The findings of the study show that the highest mean for the i-CSR disclosure index for Marketplace was 59% under the dimension of protection of human life (*al-nafs*). Meanwhile, the highest mean for the disclosure level of the workplace was under the protection of wealth (*al-mal*) dimension with a score of 68%. The mean for the environment and community themes also showed the protection of human life (*al-nafs*) scores with the highest means, which were at 58% and 53%, respectively. The highest score of the mean for the protection of faith (*al-din*) was from the community theme at only 40%. The other three themes showed that the disclosure levels for the protection of faith (*al-din*) were still at very minimal levels. The marketplace theme was indicated to be only 4%, the workplace theme scored only 9% and the environment theme was scored at 38%. From the above results, it was also concluded that the categories of the dimensions that most of the companies were likely to disclose were the protection of human life (*al-nafs*), protection of intellect (*al-aql*) and protection of wealth (*al-mal*). Moreover, each item in the four themes of the i-CSR disclosure was also classified into three levels of *Maslahah*. Table 4 shows the results of the i-CSR disclosure themes.
The Corporate Ethical Identity of Shari’ah Compliant Companies … 43

Table 3 Descriptive statistics of the four themes in the i-CSR disclosure based on the classification in the Maqasid al-Shari’ah

<table>
<thead>
<tr>
<th>Themes</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketplace</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of faith (al-din)</td>
<td>0.000</td>
<td>0.750</td>
<td>0.043</td>
<td>0.101</td>
</tr>
<tr>
<td>Protection of human life (al-nafs)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.591</td>
<td>0.319</td>
</tr>
<tr>
<td>Protection of intellect (al-aql)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.395</td>
<td>0.312</td>
</tr>
<tr>
<td>Protection of posterity (al-nasl)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Protection of wealth (al-mal)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.346</td>
<td>0.188</td>
</tr>
<tr>
<td>Workplace</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of faith (al-din)</td>
<td>0.000</td>
<td>0.789</td>
<td>0.090</td>
<td>0.084</td>
</tr>
<tr>
<td>Protection of human life (al-nafs)</td>
<td>0.000</td>
<td>0.882</td>
<td>0.410</td>
<td>0.219</td>
</tr>
<tr>
<td>Protection of intellect (al-aql)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.345</td>
<td>0.159</td>
</tr>
<tr>
<td>Protection of posterity (al-nasl)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.365</td>
<td>0.307</td>
</tr>
<tr>
<td>Protection of wealth (al-mal)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.684</td>
<td>0.372</td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of faith (al-din)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.376</td>
<td>0.215</td>
</tr>
<tr>
<td>Protection of human life (al-nafs)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.584</td>
<td>0.312</td>
</tr>
<tr>
<td>Protection of intellect (al-aql)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.438</td>
<td>0.324</td>
</tr>
<tr>
<td>Protection of posterity (al-nasl)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.420</td>
<td>0.312</td>
</tr>
<tr>
<td>Protection of wealth (al-mal)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.451</td>
<td>0.294</td>
</tr>
<tr>
<td>Community</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of faith (al-din)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.398</td>
<td>0.256</td>
</tr>
<tr>
<td>Protection of human life (al-nafs)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.529</td>
<td>0.401</td>
</tr>
<tr>
<td>Protection of intellect (al-aql)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.498</td>
<td>0.421</td>
</tr>
<tr>
<td>Protection of posterity (al-nasl)</td>
<td>0.000</td>
<td>1.000</td>
<td>0.268</td>
<td>0.270</td>
</tr>
<tr>
<td>Protection of wealth (al-mal)</td>
<td>0.000</td>
<td>0.750</td>
<td>0.125</td>
<td>0.130</td>
</tr>
<tr>
<td>Total i-CSR disclosure</td>
<td>0.000</td>
<td>0.418</td>
<td>0.201</td>
<td>0.107</td>
</tr>
</tbody>
</table>

that were classified based on essential (daruriyyat), complementary (hajiyyat) and embellishment (tahsiniyyat).

The above results reported that each of the four themes for the i-CSR disclosure was also classified into three levels of Maslahah. The findings of the study show that the highest mean for the i-CSR disclosure index marketplace was 62% under the level of embellishment (tahsiniyyat), followed by complementary (hajiyyat) at 48% and the lowest score was under essential (daruriyyat) at 5% only. Meanwhile, the highest mean for the disclosure level of the workplace was also under embellishment (tahsiniyyat) with a score of 61%, followed also by complementary (hajiyyat) at 32% and the lowest score was under essential (daruriyyat) at 11%. The mean for the envi-
Table 4  Descriptive statistics of the four themes in the i-CSR disclosure based on the classification in Maslahah

<table>
<thead>
<tr>
<th>Themes</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketplace</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essential (Daruriyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.048</td>
<td>0.118</td>
</tr>
<tr>
<td>Complementary (Hajiyyat)</td>
<td>0.000</td>
<td>1.06</td>
<td>0.476</td>
<td>0.375</td>
</tr>
<tr>
<td>Embellishment (Tahsiniyyat)</td>
<td>0.000</td>
<td>1.06</td>
<td>0.620</td>
<td>0.347</td>
</tr>
<tr>
<td><strong>Workplace</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essential (Daruriyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.108</td>
<td>0.218</td>
</tr>
<tr>
<td>Complementary (Hajiyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.318</td>
<td>0.385</td>
</tr>
<tr>
<td>Embellishment (Tahsiniyyat)</td>
<td>0.000</td>
<td>1.17</td>
<td>0.610</td>
<td>0.360</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essential (Daruriyyat)</td>
<td>0.000</td>
<td>0.00</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Complementary (Hajiyyat)</td>
<td>0.000</td>
<td>1.02</td>
<td>0.470</td>
<td>0.341</td>
</tr>
<tr>
<td>Embellishment (Tahsiniyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.510</td>
<td>0.360</td>
</tr>
<tr>
<td><strong>Community</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essential (Daruriyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.334</td>
<td>0.381</td>
</tr>
<tr>
<td>Complementary (Hajiyyat)</td>
<td>0.000</td>
<td>1.08</td>
<td>0.326</td>
<td>0.340</td>
</tr>
<tr>
<td>Embellishment (Tahsiniyyat)</td>
<td>0.000</td>
<td>1.00</td>
<td>0.390</td>
<td>0.331</td>
</tr>
</tbody>
</table>

The multiple regression analysis using Ordinary Least Squares (OLS) longitudinal panel regression or pooled regression was the first step used to examine the relationship between the i-CSR disclosures and the independent variable of CEI. Thereafter, the random effect generalized least squares (GLS) regression was performed to further test the research hypotheses and to attest to the reliability of the main OLS regression results. Furthermore, the Breusch and Pagan Lagrange multiplier (LM) test was used to decide between a simple OLS regression and a random effect GLS regression. The significance results indicated that the random effect of GLS regression was appropriate.
Therefore, further testing of the research hypotheses was required by using the fixed effect estimation technique to attest to the reliability of the random effect GLS regression results. Additionally, the Hausman test was conducted to choose the best model between the fixed effect and random effect. Based on the results of the Hausman test, the significance results indicated that the fixed effect estimation technique was the best model. Table 5 reports the results of the ordinary least squares regression, random effect model and fixed effect model.

Table 5 showed the results of the OLS longitudinal panel regression, random effect GLS regression, and fixed effect regression that was used to examine the relationships of the i-CSR disclosures and the CEI. These three models were tested to choose the best model. Thus, the Breusch Pagan and Lagrange multiplier (LM) test was used to decide between a simple OLS regression and a random effect GLS regression. The result of \( p \leq 0.01 \) for both tables presented that the OLS longitudinal panel regression was not appropriate, thus, the regression model needed to be estimated by using the random effect GLS regression.

### Table 5  OLS longitudinal panel regression, random effect GLS regression, and fixed effect regression results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pooled</td>
<td>Random effect</td>
<td>Fixed effect</td>
</tr>
<tr>
<td>Corporate ethical identity</td>
<td>0.449***</td>
<td>0.013</td>
<td>−0.121</td>
</tr>
<tr>
<td></td>
<td>(6.75)</td>
<td>(0.19)</td>
<td>(−1.52)</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(0.18)</td>
<td>(0.47)</td>
<td>(0.48)</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>0.000**</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(3.12)</td>
<td>(1.11)</td>
<td>(0.98)</td>
</tr>
<tr>
<td>Return on equity</td>
<td>−0.000</td>
<td>−0.000</td>
<td>−0.000</td>
</tr>
<tr>
<td></td>
<td>(−1.91)</td>
<td>(−1.02)</td>
<td>(−0.97)</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.016*</td>
<td>0.016*</td>
<td>0.006</td>
</tr>
<tr>
<td></td>
<td>(2.74)</td>
<td>(2.40)</td>
<td>(0.66)</td>
</tr>
<tr>
<td>Constants</td>
<td>−0.000</td>
<td>0.107*</td>
<td>0.196***</td>
</tr>
<tr>
<td></td>
<td>(−0.00)</td>
<td>(2.40)</td>
<td>(3.49)</td>
</tr>
<tr>
<td>R-square</td>
<td>0.079</td>
<td>0.043</td>
<td>0.018</td>
</tr>
<tr>
<td>Prob &gt; F /Prob &gt; chi2</td>
<td>0.000</td>
<td>0.260</td>
<td>0.522</td>
</tr>
<tr>
<td>Observation</td>
<td>1122</td>
<td>1122</td>
<td>1122</td>
</tr>
<tr>
<td>Breusch and Pagan Lagrangian multiplier test</td>
<td>0.000***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman test</td>
<td></td>
<td>0.002**</td>
<td></td>
</tr>
</tbody>
</table>

*p ≤ 0.10, **p ≤ 0.05, ***p ≤ 0.01
However, further testing of the research hypotheses by using the fixed effect estimation technique was required to attest to the reliability of the random effect GLS regression results. This is because, as Baltagi (2005) explained, the random effect model is not appropriate when the sample is not randomly taken from a large population. The sample from this study was not randomly drawn from a population, but rather, it was based on the ShCCs that were positioned in the top 500 companies (by highest market capitalization) for the 6-year period from 2008 until 2013. Therefore, Wooldridge (2010) recommended performing the Hausman test to choose the best model, either the random effect or fixed effect. The Hausman test results for Table 5 indicated that the null hypothesis of no fixed effect was rejected at the 5% level of significance. Hence, the fixed effect estimation technique appeared to be the best model and the most appropriate for this study.

In this study, the Wooldridge test was used and the results revealed that the value of Prob > F was 0.000. The results indicated that the null had a serial correlation. Thus, in this study, the null was rejected and it was concluded that the data did have a first-order serial correlation and required a robust standard error estimate.

As a conclusion, the results of this study revealed the presence of heteroscedasticity and serial correlation. Thus, the robust standard error estimation was required to be used in this study to examine the relationship of the CEI with the i-CRSR disclosure in ShCCs in Malaysia. Thus, in this study, the robust standard error of the Panel Corrected of Standard Errors (PCSEs) was applied in order to adjust the problem of heteroskedasticity, autocorrelation and not normally distributed data.

**Hypotheses Testing for the Corporate Ethical Identity**

The linear regression, correlated Panel Corrected Standard Errors (PCSEs) was employed in this study to test the developed research hypotheses of the direct relationship between CEI and i-CRSR disclosure in the ShCCs in Malaysia. Table 6 provides the results of the regression model for the CEI.

The results of the regression in Table 6 of the two models that represented the hypotheses research for the CEI with the four control variables that represented the profitability of the companies, namely, the return on assets, net profit margin and return on equity, and one represented the firms’ size, namely, total assets (logarithmic total assets).

Model 1 presents the results of the regression with the four control variables, which served as a baseline model. The results showed that one control variable, namely, return on assets, was found to have no significant association, and return on equity was found to have a negative significant association ($\beta = -0.000$, $p < 0.05$). Whilst, net profit margin ($\beta = +0.000$, $p < 0.05$) and total assets ($\beta = +0.033$, $p < 0.01$) were found to be significant and have a positive influence on the dependent variable of the i-CRSR Disclosure.

In Model 2, the independent variables were included in the model together with the control variables. The model showed the evidence of direct relationships
The Corporate Ethical Identity of Shari’ah Compliant Companies … 47

Table 6  Linear regression, correlated panel corrected standard errors (PCSEs) of the CEI on the i-CSR disclosure

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate ethical identity</td>
<td>0.449***</td>
<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>0.000**</td>
<td>0.000**</td>
</tr>
<tr>
<td>Return on equity</td>
<td>−0.000**</td>
<td>−0.000**</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.033***</td>
<td>0.015***</td>
</tr>
<tr>
<td>Constant</td>
<td>0.010</td>
<td>−0.000</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.041</td>
<td>0.079</td>
</tr>
<tr>
<td>Max lag (N)</td>
<td>1122</td>
<td>1122</td>
</tr>
</tbody>
</table>

***p < 0.01, ** p < 0.05, * p < 0.10
Dependent variable: islamic corporate social responsibility disclosure

between the independent variables and the dependent variable after being statistically controlled by the four control variables, namely, return on assets, net profit margin, return on equity and total assets. From Table 6, the model improved significantly with an R-square = 0.079. The results showed that net profit margin (Beta (β) = + 0.000, p < 0.05) was found to be less positive and significant, and total assets (Beta (β) = + 0.015, p < 0.01) was found to have a strong positive significant association with the dependent variable of i-CSR disclosure. However, the results showed that return on equity had a negative significant association (Beta (β) = −0.000, p < 0.05) and no significant association was found between i-CSR disclosure and return on assets.

Furthermore, the results of Model 2 in Table 6 showed a direct relationship of the research hypothesis H1 which was CEI and i-CSR disclosures in ShCCs. Hypothesis 1 stated that there is a positive association between CEI and i-CSR disclosure in ShCCs. The results from Table 6 indicated a Beta (β) value of +0.449, t = 13.56, and p-value = < 0.01. The results revealed a positive and strongly significant association between CEI and i-CSR disclosure. Hence, the hypothesis (H1) was strongly supported as the p-value was statistically significant at a 99% confidence level, and the Beta value was consistent with the predicted sign of the hypothesis relation.

As a conclusion, the results indicated that the more the ShCCs emphasize their CEI as Islamic-based companies, the higher the i-CSR disclosure.

Discussion and Conclusion

The first objective in this study was to assess the level of i-CSR disclosure for 187 Malaysian ShCCs for the years ended 2008 until 2013. The results revealed that the protection of human life (al-nafs) was a Maqasid al-Shari‘ah dimension that was frequently disclosed by the entire corporation over the 6-year period. For
marketplace, emphasizing the green products, they disclosed the issues of health, safety, halal or haram and quality features of the product to consumers, displayed the content of ingredients of the products, etc. This was consistent with the needs of today’s customers who are concerned with a healthy life. Thus, the issues that are related to products and services should be disclosed directly and clearly. Meanwhile, for the environment, most of the corporations disclosed the items on the reduction of environmental pollution due to work processes, designing facilities being harmonious with the environment and the existence of an environmental management system or policy. For the community theme, most of the corporations provided high-quality preventive health care services to families, communities and school children.

Another finding was that the protection of wealth (al-mal) was the highest dimension of disclosure under the workplace. The issues on human capital development, employee health and safety should be highlighted. In this study, the items that were frequently disclosed were providing a conducive environment for production activities, employees being kept up to date with the information and development in the production, and providing counselors, coaches, or consultants to staff that are facing personal or work-related problems.

Unfortunately, this study found that Islamic information was not frequently disclosed, namely, the items such as halal products or services, providing an Islamically friendly environment, Muslim employees being allowed to perform their obligatory prayers, providing training on Shari’ah awareness, Waqf public infrastructure, disclosure of activities which could be unfriendly to the environment etc. This was indicative of a lack of transparency in terms of the items under the protection of Faith (al-din). The result was consistent with previous studies by Othman and Md Thani (2010), Ousama and Fatima (2010), Ahmed Haji and Mohd Ghazali (2013). The results indicate that ShCC require a specific guideline and awareness on matters relating to the concepts of accountability and full disclosure which could lead to the Islamic principles and values. Islamic information is important to ShCCs because it can help the corporation to differentiate between Shari’ah and Non-Shari’ah companies. Consequently, it can increase the image and value of the ShCCs.

The second objective of this study was to examine the relationship of the CEI that is being incorporated by these ShCCs with i-CSR disclosure. The finding of the study revealed a significant relationship. This finding supported the hypothesis, which stated that there is a positive association between CEI and i-CSR disclosure. The result is consistent with Tewari (2011), Bravo et al. (2012) and Haniffa and Hudaib (2002). No study had even directly tested the relationship between CEI and corporate social disclosure. But prior literature indicated that, by reporting the activities in the annual report, a company could promote and show to the stakeholders that it had a corporate ethical identity as a Shari’ah compliant company bound to the Islamic principles and values (Haniffa & Hudaib, 2002). The result was also consistent with the stakeholder’s theory. The significant result at p < 0.01 indicated that the organization’s decisions were based on the organization’s behavior which is its ethical identity and values. This is as suggested by stakeholders Maignan and Ferrell (2004), that the directors on the board and other management teams are to conduct their business activities and practices morally and ethically because it will
affect the stakeholders’ perceptions toward the organization. Thus, i-CSR disclosure which is part of the matters that depend on an organization’s decisions will be increased. Brown and Treviño (2006) summarized that the ethical and moral dimension of leadership in the organization is more important than other things in order to gain organizational effectiveness. Islam also emphasized an ethical and moral responsibility in all matters being conducted, and Allah (SWT) condemns all bad behavior. This is clearly stated in the Quran:

All bad behavior is condemned by your Lord. (al-Isra: 38)

Finally, there are some limitations to this study. This study focused on CEI and i-CSR disclosure in ShCC annual reports of the top 500 firms (by market capitalization) for 2008 until 2013 only. Hence, future research may consider analyzing other forms of communication channels, such as the companies’ web sites, standalone sustainability reports, newspapers and in-house magazines. Future research could also include data of all firms that are listed as Shari’ah Compliant in Bursa Malaysia. This study is expected to alert the Securities Commission with regards to the definition of Shari’ah compliant status which should not just include “good public perception and image” companies but also the extent of the application of Islamic values and Shari’ah principles in the conduct of their businesses.

References


Halal-Green: The New Quality Management System

Fadzila Azni Ahmad

Abstract  Quality management system is an important element in the management of an institution or organisation with efforts to achieve the quality objectives of an institution or organisation, increase procurements, renew and enhance quality as well as increase effectiveness or change organisational vision; hence, an appropriate quality management system should be used. However, most quality management systems currently available are actually a fad. These systems are only adopted for a specific period, hence, there is not enough time for the systems or their effectiveness to be fully appreciated by the institution, as they eventually become obsolete. This is due to the emergence of new quality management systems that are more attractive and effective. Hence, this paper had suggested the halal and green concepts as the fundamental or important elements in building a quality management system so that a sustainable quality management system could be created. This suggestion is based on evidence concerning the sustainability of both these concepts through narrative studies carried out on publications found in Scopus’s electronic databases that had no limitation on years of publication. This study found that the dramatic trend in the study on halal and green and also that these concepts could become an influencing factor to make the halal-green concept an important element when building a more sustainable quality management system. Lastly, this paper had outlined factors that could make the assimilation of the halal and green elements into the quality management system more dynamic, sustainable and relevant across time.

Keywords  Halal  ·  Green  ·  Halal-green  ·  Quality management

Introduction

Quality management is a field that is fast evolving and frequently changing in a drastic fashion in real time. In the past few decades, dozens of quality management

F. A. Ahmad (✉)
Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia, 11800 USM, Penang, Malaysia
e-mail: sukainah@usm.my

© Springer Nature Singapore Pte Ltd. 2019
N. Z. M. Sidek et al. (eds.), Islamic Development Management,
https://doi.org/10.1007/978-981-13-7584-2_4
systems have been introduced. However, most of the time a system that had won the ‘quality management system most adopted by institutions and organizations’ could not withstand against time and it is no longer being applied these days. This shows that building a quality management system that is capable of withstanding changing times and environments as well as being universal in nature is urgently needed and very crucial. Moreover, the current quality management world is increasingly trending in two aspects, namely halal and green.

Halal is frequently referred to as the trillion-dollar industry and is seen by many as having the potential to design the world of management today. Halal is a term exclusively used in Islam, which means permitted or lawful (Al-Qaradhawi, 1994). Recently, halal has been expanded beyond the food and beverage industry. It is exploring various sectors such as cosmetics, pharmaceuticals, logistics, marketing, financial, and most recently, as a benchmark of quality in hospitality and tourism. While green is gaining popularity today as the awareness toward environmental quality is reaching critical levels. The emergence of the green concept is basically referring to knowledge and practice environmentally friendly that is hoped to protect and sustain the quality of the environment and its nature for future generation (Mawhinney, 2002). Today, green is not limited to the invention of trees, but it comprehensively involved ecologically responsible and quality lifestyle.

Although, halal and green are comprehensively applied in all aspect of our lives, it remains a question of whether the elements of halal and green in quality management could be just another management fad? How can this be determined? How can we ensure that it is not a management fad that will disappear after the era is gone but is a sustainable and dynamic quality management system? This paper has been conducted to investigate and thus answer all these questions.

To investigate and answer all the questions raised, this paper will first present discussions about existing management systems and fluctuations in the popularity of these quality management systems. This is to prove the need for a quality management system that is more sustainable and relevant in terms of time. Based on the discussion, this paper then attempts to elaborate on the possibility of using the halal and green concepts as the basis of building a quality management system that is capable of filling the requirements of today’s quality management challenges.

**Review of Literature**

Referring to the examination of available literature, there are several definitions of management system although most of them are general in nature. There are no specific definitions for the term management system. In addition, the term management system itself has not been adopted universally. Some writers have used the term man-
agement technique or management method or management tool or even management model when referring to the same meaning.¹

Some writers have referred the term ‘management system’ to a way, process, procedure or regulation that systematically implements management activities and all of its elements in order to achieve management objectives (Standingford, 1967: 544; Torrington et al., 1985: 5 and Warner, 1996: 652). Specifically, Ishikawa (1990: 42) defined management system as a scientific operational strategy and must be comprehensively implemented as well as follow a particular standard in order to achieve management objectives. A similar kind of definition was given by Amstrong (1993: 15) by detailing the meaning of scientific operational strategy to processes that are analytical, quantitative, objective and comprehensive in nature.

Carroll (1973: 577), on the other hand, did not limit the management system only to regulations or processes that are scientific, quantitative, objective or comprehensive in nature or other with other words that were physical in nature. She had also considered mental processes that are properly planned in order to achieve the management objectives when defining the term management system.

According to al-Buraey (1985: 309) and Hassan (1992: 70), the definition of the management system surpasses the physical and mental dimensions.² Both these writers had emphasised on a more abstract dimension, which is the spiritual dimension. For example, al-Buraey (1985: 314) had emphasised on moral values that constitute the Islamic ethical standards when implementing any regulation or procedure aimed at fulfilling management objectives. Hassan (1992: 71) made it a condition whereby the processes implemented in any management model must not contradict the status of humans on this earth. The status of humans on this earth means refers to the status

¹Between the management model and the management technique terms, management model was used and recognised more in the field of quality management. This term among others was adduced in The Encyclopaedia of Business Management (Standingford, 1967), Encyclopaedia of Management (Carroll, 1973) and Production Handbook (White, 1987). Besides that, there are writers who have used the term management method in their writings. Among them were Dale and Michelon (1966), Ishikawa (1990), Torrington et al. (1985), Jones and Woodcock (1985), Murata and Harrison (1991), Vonderembse and White (1996) and Beckford (1998). Meanwhile, the International Encyclopaedia of Business and Management (1996), Finch (1976), Armstrong (1993), Ward (1995) and Abrahamson (1996) had used the term management technique, whereas al-Buraey (1985), Mohd Affandi Hassan (1992), Harding and Long (1998) and Ten Have et al. (2003) had used the term management model.²Both, al-Buraey and Hassan are Islamic management thinkers who had introduced the Islamic management model system as the Islamic Model of Administration—The 6-Ps Version and Management with Syura.
of a subject and khalifah of Allah SWT. These processes must also be ascertained that they are a form of worship according to Islam.

Besides focusing on the meaning of the system, the authors had also detailed the management objectives that should be achieved when implementing a particular management system. According to Dale and Michelon (1996), management objectives that should be achieved when implementing a particular management system are enhancing decision-making and solving problems in management. Meanwhile, Armstrong (1993: 15) and Finch (1976: 10) adduced a more general objective, which is to enhance effectiveness and skills in management activities. Carroll (1973: 577) had focused on a more technical objective, which is to achieve time saving, lesser work, increase productivity, reduce costs and improve quality. In contrast with objectives adduced earlier, Hassan (1992: 70) stated that the objective of using the management system was not only to achieve tangible success in this world but also to achieve success and happiness in the afterlife.

From these discussions, it is clear that the definition of the management system involves two main elements. First, it is a particular way, process, procedure or regulation. Second, it is implemented in order to achieve a particular management objective.

While the definitions of the term quality set forth by the quality gurus including Shewhart, Deming, Juran and Feigenbaum, though varied, all stem from the premise of meeting the needs and desires of customers (Oakland, 1989). Based on these quality gurus views, a number of authoritative bodies on quality around the world have put forth specific and clear definitions of quality.

The American Society for Quality Control (ASQ), for example, defines quality as the overall nature or characteristics of a product or service that bear on its ability to satisfy customer needs (Johnson and Winchell, 1990). For the International Organisation for Standardisation (ISO), the same definition applies. However, customer needs shall be the priority in any form, whether stated or implied by the customer (Kirchner, 1995). In Malaysia, the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU), a body responsible for introducing government administrative reforms, uses the same definition for quality. The definition of quality set forth by MAMPU (1991) is as follows:

Quality is defined as something (usually associated with a product or service) that can satisfy the needs of the public who serve as clients and stakeholders of an institution. The needs of the public who serve as clients and stakeholders of an institution.

---

3In relation to the elaboration on the human status as a subject and khalifah of Allah, Hassan (1992: 30–33) had quoted al-Attas (1993:139–141). According to the elaboration, the human status or in this context, fellow managers as subjects of Allah are responsible to ensure the aim of life on this earth is to worship and offer servitude to Allah. Whereas, the role of a khalifah requires fellow managers to implement trust and tasks of a manager according to the wishes of Allah. The elaboration on the human status as a subject and khalifah of Allah in the context of management was done by Salleh (2000: 16–26 and 2003: 6–9).

4Hassan (1992: 43–44) in his work had referred to worship as a comprehensive concept that includes whatever word or behaviour that is loved and blessed by Allah, either it is tangible or not. He quoted this definition from Ibn Taimiyyah (1982: 1–2).
of the public and stakeholders must be given priority in order to secure the future of the institution.

Next, an examination of available literature related to management systems shows the existence of numerous contemporary management systems.\(^5\) Since the number is considerable, there are no literary works that could possibly fit all these management systems in their work. The absence of this kind of literature is also due to the characteristic of the management system itself, which is ‘buffet’ in nature (White, 1987: xii).\(^6\)

Thus, due to the increasing number of quality management systems, the exact number is quite difficult to ascertain. One such literary work that gives a comprehensive presentation of available management systems, in general, is the *Encyclopaedia of Management Development Methods* (2001). Its author, Huczynski, had adduced 710 management systems in his encyclopedia. However, Huczynski (2001: xiii) admitted that he has not succeeded in compiling and listing all the management systems that exist including that of all the quality management systems. Some authors have presented quality management systems in the form of a handbook but have only included quality management systems that they felt were important.\(^7\) The majority of authors had only discussed a particular quality management system in their work.\(^8\)

In some literature, the general management systems were classified into several categories. For example, Amstrong (1993) in *A Handbook of Management Techniques: A Guide to Modern Management Methods*, had classified management systems into nine (9) categories according to their function in management. The categories are corporate management, marketing management, operational management, financial management, human resources management, management science, planning and resources allocation as well as effectiveness and efficiency. Harding and Long (1998) had also classified the functions of management when discussing the management model. However, Harding and Long only had five (5) classifications, namely financial/accounting management, operational management, organisational management, human resources management, and marketing management. Some of the management systems which could be categorised as quality management systems according to the management function categories adduced by both authors are shown in Table 1.

Lately, Rigby and Bilodeau (2015) had implemented a study, which has been carried out every two years since 1993, to identify the most popular and relevant

\(^5\)It was stated in previous studies that the best management system was introduced by Frederick Taylor more than a century ago (Carroll, 1973: 577). Since then until now, the number of management systems have increased.

\(^6\)‘Buffet’ as stated by White (1987) referred only to specific management systems selected to be used by an organisation or institution.


management system in general according to executives in various institutions. Based on the study, the quality management systems that had become a trend 2 years ago were different from management systems used by executives and managers in institutions 5–7 years ago. Table 2 is the list of most popular management systems in 2015 globally according to the study by Rigby and Bilodeau (2015). Most of the management systems listed are quality management systems such as balanced scorecard, benchmarking, business process reengineering up until the total quality management system.

The number of quality management systems indicate that the use of quality management systems is indeed wide. This is also indicated in the studies and literary works on management systems. Abrahamson (1996) and Ponzi and Koenig (2002), besides indicating the numerous number of publications on quality management systems, had also shown that developments in studies and literary works related to quality management systems were periodic in nature and proportionate in timing. Abrahamson (1996) and Ponzi and Koenig (2002) also found that the trend in studies and literary works on quality management systems in the early stages had existed and developed proportionately with time. After the stage where the studies and literary works about quality management systems had reached a maximum point, the trend changes inversely with time. This shows that quality management systems are a very dynamic and evolving field. Besides, Ponzi and Koenig (2002) also showed that building a quality management system that is capable of withstanding changing times and environments as well as being universal in nature is of great demand and significance.
The latest most popular management models according to Rigby and Bilodeau (2015)

<table>
<thead>
<tr>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced scorecard</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
</tr>
<tr>
<td>Benchmarking</td>
</tr>
<tr>
<td>Mission and vision statements</td>
</tr>
<tr>
<td>Big data analytics</td>
</tr>
<tr>
<td>Organisational time management</td>
</tr>
<tr>
<td>Business process reengineering</td>
</tr>
<tr>
<td>Outsourcing</td>
</tr>
<tr>
<td>Change management programs</td>
</tr>
<tr>
<td>Price optimization models</td>
</tr>
<tr>
<td>Complexity reduction</td>
</tr>
<tr>
<td>Satisfaction and loyalty management</td>
</tr>
<tr>
<td>Core competencies</td>
</tr>
<tr>
<td>Scenario and contingency planning</td>
</tr>
<tr>
<td>Customer relationship management</td>
</tr>
<tr>
<td>Strategic alliances</td>
</tr>
<tr>
<td>Customer segmentation</td>
</tr>
<tr>
<td>Strategic planning</td>
</tr>
<tr>
<td>Decision rights tools</td>
</tr>
<tr>
<td>Supply chain management</td>
</tr>
<tr>
<td>Digital transformation</td>
</tr>
<tr>
<td>Total quality management</td>
</tr>
<tr>
<td>Disruptive innovation labs</td>
</tr>
<tr>
<td>Zero-based budgeting</td>
</tr>
<tr>
<td>Employee engagement surveys</td>
</tr>
</tbody>
</table>

Source Rigby and Bilodeau (2015)

Hence, this working paper intended to suggest that the halal and green elements to be considered when building a quality management system. The reason why these elements should be considered is shown in the findings concerning the trend in publications about halal and green located in Scopus’s electronic database and discussed in the following section.

Methodology

The aim of this study is to identify the trend of halal and green management in order to investigate the potential of these management aspects to become a sustainable, integrated and dynamic quality management system. Therefore, a narrative literature review has been chosen to address the main research questions—what was the trend in studies on halal and green from its inception until now?

To answer the question, this paper proceeded with a narrative review. The review is limited to the trend in studies on halal and green using the web-based search engine. Only Scopus electronic databases have been selected in this study. Search term has been used to identify publications that contained halal and green in the title, abstract and keywords. No limits were established regarding the year of publication. The search terms were tested and refined through several rounds of paper identification. The results of this search are presented in the next section. Prior to that, the review on quality management systems literature was analysed.
Result and Discussion

In order to discover the possibility of the halal and green concepts becoming the very basic elements to a quality management system, both these concepts should have added value, which this paper would like to address—dynamic and able to withstand the test of time; hence, this article examined the publication trends related to halal and green based on studies in the Scopus electronic database. The following section discusses this element.

The Trend of Halal Studies

Overall, as presented in Fig. 1 on Scopus publications regarding studies on halal showed an increase since it was first published in 1950. However, the increase has increased exponentially since 2005. Beginning in 2012, yearly publications until 2017 increased to more than 100 publications a year compared to the number of years from 1950 to 2000s, which only achieved a maximum number of five Scopus publications a year. Although the overall total of Scopus publications related to halal were 1086; however, based on the abrupt and constant increase, the halal element attracted the interest of researchers, academicians, and implementers until the concept was studied empirically and academically.

![Graph showing increase in halal publications from 1950 to 2017](image)

Fig. 1 Distribution of halal publications in Scopus database throughout the years (1950–2017)

---

9It is emphasised here that multiple counts of the same study are allowed. Thus, the sum entered might not correspond to the total as mentioned because some studies might involve more than one cluster.
When examining these halal studies, the focus of the study related to halal was found to be dominantly in the field or cluster regarding food (Fig. 2). Besides four other matters related to halal that were frequently studied were science of halal, halal products, halal management, and halal marketing. This finding was in line with the postulation that the halal element could be the basis for building quality management systems because according to the review, the main focus of studies related to halal besides halal food, halal products, and the science of halal was halal management.

**The Trend of Green Studies**

As in the study regarding halal, studies on green had also increased according to the Scopus electronic database. However, it was found that the total was much higher compared to publications and studies related to halal. Studies on green had begun a century before studies on halal. Overall, there were 535,753 articles on halal found in the systematic study. A similar trend was seen between halal and green studies when observing a particular point in time, in which publications on green rose abruptly with an exponential rise. According to Fig. 3, it shows that beginning in the 1960s, studies related to green began to be published aggressively until there were 1000 publications in one year, differing with previous years that saw publications on green hitting 30 publications a year on average.

Meanwhile, the field or cluster that was most related to green studies was green development (Fig. 4). This was followed by green technology, green energy, green environment and green management. The findings showed that green management was something that was seen as important and significant lately and frequently discussed in the green studies context.
According to the review on halal and green studies, it is clear that both these concepts are gaining a place as well as popularity in the context of implementation as well as academic discussions. This shows that when both these concepts are considered integratively in a management system for quality, then it could be postulated that the quality management system would be seen as significant and relevant when adopted.

Next, touching on the issues for the need of a quality management system that could withstand changing times, the study related to halal and green could fulfil that characteristic. This is because the period of study on halal had begun a long time ago,
especially studies on green that are close to 2 centuries (1858–2018). In that period, a systematic review study found a growing publication trend that had not receded. In the context of halal studies, although in academic discussions the period stated did not reach a century, the halal concept was actually introduced 600 years ago by the Prophet SAW. The concept has not faded until today but instead has become increasingly relevant and important. Hence, both these concepts could create a quality management system that is dynamic, sustainable as well as long-lasting. When this is realised, then the quality management system that is adopted, for example in managing an institution, then it would be actually understood, assimilated, appreciated and has enough time to witness the fruits of the adoption. All this could not occur with a quality management system that is constantly changing and not in line with the changing times.

The Trend of Halal-Green Studies

Next, this study examined the trends in academic discussions found in the Scopus electronic database, which had combined the halal and green concepts into one article. It was found that these discussions had begun in 1997 and there were only 10 articles in the Scopus publications (Fig. 5). Observations showed that the combination of the halal and green concepts was still new and had a big potential because the halal and green concepts as a separate entity were seen as increasingly important by numerous parties. Therefore, it could be predicted that when both the halal and green concepts are combined, it could provide a more dramatic and significant change to management development on a global scale.

Conclusion

Until now, this is the first article that tried to examine the halal and green concepts through the narrative review method in order to produce input for developing a man-
agement model that could withstand the test of time. Based on the most rudimentary narrative review applied to this article, it was seen that the halal and green concepts have a good chance to be discussed and adopted. Clearly, an extended study is required by applying for the systematic review in order to further explore the identified publications so that matters such as categorization and focus of these articles could be evaluated more intensely in order to build a comprehensive management model.

Acknowledgements This research was supported by Universiti Sains Malaysia and Ministry of Higher Education under the Fundamental Research Grant Scheme (203/CISDEV/6711527): Model Pengurusan Halal-Hijau (H²) [Reference Code: FRGS/1/2015/SS03/USM/02/4].

References


hajarsalwa@gmail.com


Muslim-Friendly Hospitality: 
An Overview of the Emerging Hospitality Industry in Malaysia

Azreen Hamiza Abdul Aziz

Abstract Malaysia has emerged towards Muslim-friendly hospitality services (MFHS) that sees the formation of two main industries, hospitality and tourism to move side-by-side hastily today. The positioning of Malaysia as the pioneer in promoting MFHS foresees to transform Malaysia into a high-income nation by 2020 to achieve the target to become the leading tourist destination. It also will heighten the target of 36 million tourist arrivals and RM168 billion in receipts to intensify the existing Islamic tourism sector for the desirable economic benefits. Muslim-friendly hospitality, however, is a holistic tourism services that adhere to the Islamic values but with more sufficient outlook. It is very important to outline the emerging MFHS industry in Malaysia to ensure that the new label of MFHS in Malaysia is emergent globally. This study overview MFHS as the emerging hospitality industry in Malaysia and where the direction should be. The methodology of this study is exploratory with the main data collected by using library research. The findings of the study found that the emerging hospitality industry in Malaysia is on the right track and should focus on the structure of the MFHS concept to maximise the economic benefits and to maintain the sustainability of the industry.

Keywords Muslim-friendly hospitality · Tourism industry · Islamic hospitality

Introduction

Generally, tourist arrivals in Malaysia are reaching almost 25.05 billion in 2017 which contribute to RM82.1 billion in the tourism receipts (Tourism Malaysia, 2018). From this enormous number, globally, the international tourist arrival is expected to increase to 3.3% from 2010 until 2030 with the merging market share of the emerging economies expected to reach up to 57% in 2030 (UNWTO, 2016). The evolving population of the world Muslim population around the world is estimated
to escalate to 2.2 billion in the next 10 years to come from 1.7 billion in 2015. From that forecast, the demand for Muslim-friendly hospitality services (MFHS) will continue to broaden with tremendous growth in the hospitality and tourism industry aligned with the development and demand for Halal travel globally. This is due to the tourism and hospitality sector momentum that is expected to undergo rapid growth approximately to reach USD 243 million by 2021. MFHS is gaining an ordinary interest and will continue to expand since the awareness about MFHS has been disseminated globally.

Looking at the Muslim tourist’ contribution to the global tourism economy, the global spending of Muslim tourist in 2016 is RM727 billion which is 11.9% of the global expenditure (excluding hajj/umrah). The data estimated to increase by 40% billion in 2022 (The Global Islamic Economy Report, 2018). In Malaysia, the performance of its tourism industry is based on the international tourist arrival and the international tourism receipts. Based on the halal travel indicator, Malaysia ranks second place next to the United Arab Emirates (UAE) for countries that have the best-developed ecosystem for Muslim-Friendly Tourism. Malaysia has the potential especially in the transportation infrastructure, accommodation infrastructure and hospitality suppliers, food and beverages, travel agencies, as well as entertainment and attraction infrastructure.

This study uses the qualitative research method with exploratory research design. Secondary data from two main sources are collected. First is from the primary source of al-Qur’an and Hadith and second is from the secondary source is collected from literature, reports and documents that are related to hospitality. Based on the eccentric figure and report findings, the untapped market in the Muslim population is very significant to explore in order to maximise the economic benefits and to maintain the sustainability of the industry. Thus, this paper intended to grasp the overview of the emerging MFH in Malaysia and reveal the success story of Malaysia in pioneering in the MFHS industry.

Method

This study uses the qualitative research method with exploratory research design. Secondary data from two main sources are collected. First is from the primary source of al-Qur’an and Hadith and second is from the secondary source is collected from literature, reports and documents that are related to hospitality. Based on the eccentric figure and report findings, the untapped market in the Muslim population is very significant to explore in order to maximise the economic benefits and to maintain the sustainability of the industry. Thus, this paper intended to grasp the overview of the emerging MFH in Malaysia and reveal the success story of Malaysia in pioneering in the MFHS industry.
Results and Discussions

Muslim-Friendly Hospitality

MFHS is one of the niche segments in the Islamic hospitality and tourism industry that are very much focused on services that is Shari’ah based to indulge those travellers who are demanding for specific services. Since the beginning of time, travelling has become as one of the most important part of the hospitality and tourism sector. In Islam, Muslims are encouraged to travel to see the world and conserve the experience for the devotion towards the greatness of Allah SWT. The history also shows that the most travelled man, Ibn Battuta crossed the world for a remarkable 30 years. From the al-Qur’an, there are nine verse that embolden people to travel the world. The nine surahs are as listed as follows (Table 1).

Tourism and hospitality complement each other in the industry. When travelling, people need a good hospitality. Especially those who are looking for a Muslim-friendly hospitality services that are comply with the Islamic law. The current Islamic hospitality is defined to cater the needs of Muslim travellers, tourists as well as business people in providing a family-friendly, tranquil, entertaining and culturally sensitive and experience-enriching hotel (Baker, 2011). Even though the term Islamic hospitality now is limited to the development of Islamic hotels, the scope can be developed further in the future to enhance the broader definition in Islamic hospitality as mentioned previously. The broader definition should include honouring guests by providing the best hospitality services not limited to hotel or accommodations only but in wider range of transportation services such as the airlines industry, institutions services such as universities, health care services in term of health services such as hospitals as well as other services that can offer the best hospitality services to guests.

According to the research done by Aziz (2017), based on the evidence from the al-Qur’an and Hadith, the fundamental concept of hospitality is explained in the al-Qur’an. In Islam, Guests are the responsibility of Allah SWT and should be treated with the utmost hospitable service to comfort them and fulfill their need while

<table>
<thead>
<tr>
<th>No.</th>
<th>Surah</th>
<th>Verse number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Al-Mulk</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>Muhammad</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Luqman</td>
<td>31</td>
</tr>
<tr>
<td>4</td>
<td>Yusuf</td>
<td>109</td>
</tr>
<tr>
<td>5</td>
<td>Ar-Rum</td>
<td>42</td>
</tr>
<tr>
<td>6</td>
<td>Ali ‘Imran</td>
<td>137</td>
</tr>
<tr>
<td>7</td>
<td>Ar-Rum</td>
<td>9</td>
</tr>
<tr>
<td>8</td>
<td>An-Naml</td>
<td>69</td>
</tr>
<tr>
<td>9</td>
<td>Al-An’aam</td>
<td>11</td>
</tr>
</tbody>
</table>
travelling. The host is responsible toward its guests and he must serve and spend part of his sustenance (rezk) with the guests. In welcoming and honouring guests, it makes a Muslim a True devotee towards Allah SWT. Prophet Muhammad PBUH is reported to have said from Abu Salih, from Abu Hurairah r.a:

Prophet Muhammad PBUH said: He who believes in Allah SWT and the Last Day, let him show hospitality to his guest; and he who believes in Allah SWT and the Last Day, let him maintain good relationship with kins; and he who believes in Allah SWT and the Last Day, let him speak good or remain silent! (Hadith al-Bukhari, No. 6018)

Another Hadith from Sa’id Al Maqburi reported from Abu Syuraih Al Adawi, he said:

Both of my ears listen, and both of my eyes see, when Prophet Muhammad PBUH said: “Whoever believes in Allah SWT and the last day, he must honour his neighbour, whoever believes in Allah SWT and the last day, he must honour his guests with gift”. He said, “What is the gift”. And Prophet Muhammad PBUH replied, “One day one night and honouring your guest in the three days of stay, whatever is more than that is consider as charity to them”. (Hadith al-Bukhari, No. 6019)

From the syarah of Fathul Baari by Ibn Hajar Al Asqalani (2009), Imam Bukhari mentioned that whoever believes with absolute faith in Allah SWT specifically focusing on devoted oneself to Allah SWT and the hereafter, Allah SWT will granted him with a reward for his good deeds. Imam Bukhari also revealed that by honouring guests or be kind to guests has been mentioned in Hadith narrated by At-Thabarani from Baz bin Hakim has the same meaning where when he mentioned on akhlak on the rights towards neighbour where Prophet Muhammad PBUH said,

It is to give help if he asks for your help, to lend him if he asks to borrow from you, to satisfy his needs if he becomes poor, to console him if he is facing any hardship, to congratulate him if he has good fortune, to visit him if he becomes ill, to attend his funeral if he dies, not to make your house higher than his without his consent, to offer him fruit when you buy some or keep it clandestinely if you do not have anything to offer, or letting your children out just to create jealousy to his children, or to bother him by the tempting smell of your food unless you want to share by sending some to him.

It shows that showing good hospitality towards neighbour also is a good deed. In this Hadith, it consists of three significant which are good akhlak, good words and good deeds. Whoever has a complete faith which is Iman, he will have the love towards all living things created by Allah SWT either by showing good akhlak, saying only good words or presenting good deeds.

Furthermore, the verse 24–27 in Surah Adh-Dhariyat embrace directly the definition of Islamic hospitality, Sayyid Qutb (2012) explains that the verse 24–27 in Surah Adh-Dhariyat speaks the sign in the history of the divine message just like the sign from previous verse referred. Basically, it explains the hospitality of Prophet Ibrahim and the welcome he gave to his guests, or rather the angels he thought to be his guests. He was keen to entertain the guests when they greeted him; he went straight to his household and brought out a fat calf, yet prior to the guests’ arrival at his doorstep, they were total strangers to him. In the verse 24, it describes that Prophet Ibrahim guests as honoured because Prophet Ibrahim paid honour to them.
as we soon learn that Prophet Ibrahim hospitality appears very clear from the first arrival of his guests. Despite they were a total stranger to him, after greeted, he told his wife to prepare food for the guests with a large quantity that is sufficient to feed a number of people. He asked the question politely to his guest in verse 27 after seeing his guests did not touch the food and made a conclusion that they would not eat the feast provided. Nevertheless, he then found out that his guests were angels sent from Allah SWT to bring good news to him.

As the result from the discussion, there is a new opportunity of expanding the new knowledge and taking advantage of the concept of MFH in order to maximise the economic benefits and to maintain the sustainability of the tourism industry. It is believed that the MFHS has the potential to play an important role in promoting and enhancing the growth of the Islamic tourism industry.

The Malaysia Experience

People are travelling for leisure, recreation, history, immigration, family, education and many more reasons. Recently, Malaysia recorded an increase in the tourist arrival with the tourist receipt rose to RM82.1 billion to Malaysia revenue (Tourism Malaysia, 2018). This escalation growth pattern in the tourism industry has established Malaysia to become the major player in the hospitality and tourism industry to offer the best MFHS for both Muslim and non-Muslim travellers. More achievement can be seen in the recent survey by Dinar Standard has named Malaysia as one of the world’s favourite tourism destination whereas, in the Halal travel indicator, Thomson Reuters (2016) declared Malaysia as one of the countries that have the best-developed ecosystem for Halal travel. Malaysia is the most culturally significant country with different races and ethnics living under one roof with its own unique culture.

The history of contemporary hospitality management begins with the word hospitality derived from the Latin word hospitare meaning to “receive as a guest”. Hospitality is the act of kindness in welcoming and looking after the basic needs of guests or strangers, mainly in relation to food, drink and accommodation. Closely associated with the tourism industry, the changing pattern of tourism industry has made hospitality industry grow. Looking back from the 1930s until now hospitality is defined as ‘kindness in welcoming strangers or guests’ (Hanks, 1989). Specifically, most researchers define hospitality as a mixture of tangible and intangible components such as food, beverages, beds, ambience and environment and behaviour of staff (Cassee, 1983). According to Jaswir and Ramli (2016), Muslim-friendly hospitality services such as airlines, hotels and food services are the new fast-developing tourism products in the halal tourism industry. MFHS in real definition goes beyond the broader scope which covers the holistic way of honouring guest and providing the best services that one could be offered.

Looking at the Malaysia perspective, according to the UN (2016), the percentage of Muslim population in Malaysia is 60.4% of the total population of 30.1 million. With the big population of Muslim living and residing in Malaysia, it has opened
up a massive potential and opportunities for Islamic services especially Islamic hospitality to develop. The expeditious phenomena of Islamic services began since the introduction of Islamic banking and finance, Islamic tourism and hospitality and the Halal industry. Since then, the rapid growth of the industry can be seen clearly without any doubt. Tourism Malaysia (2015) classifies Malaysia due to its uniqueness of multi-ethnic character population. The uniqueness of multi-ethnic character population did not prevent Malaysia to be a country that is leading and advance in the introduction of Islamic hospitality. Malaysia has developed to become a key player for the world travellers to visit and experience the MFHS (Fig. 1).

Malaysia has become one of the most visited countries in the world. The government of Malaysia has made significant efforts to ensure that tourism and hospitality plays a vital role in the economy. Tourism Malaysia has been extensively promoting the campaign ‘Visit Malaysia’ in 2014. This contributed positively to the tourist arrival up to 27.44 million with RM72 billion receipts. This figure boos up after the ‘Visit Malaysia’ campaign after a period of growth of tourist arrival approximately at 3.2% from the year 2009 until 2013. However, a declined figure shows in the year of 2015 due to some internal and external issues of catastrophes that happen in Malaysia towards the end of 2014. However, in 2016, Tourism Malaysia recorded a healthy rebound of 4% tourist arrivals with a good climbing to 26.76 million tourist arrivals with RM82.1 billion receipts. This shows that Malaysia manage to overcome the obstruction and revitalize a new strategy in promoting MFHS to the world.

The government of Malaysia has identified the tourism and hospitality industry as one of the sectors that play a significant role in the economy and social development of Malaysia (Nor’ Ain Othman, 2007). The government plays a vital role in the development of MFH in Malaysia for example in certain infrastructure projects, government plays a very important leading role such as in the major land transportation projects such as airports, highways, Halal certification as well as hotels, resorts and tourism attractions. The Malaysian government set up Islamic Tourism Centre (ITC)
in 2009 to assist the Malaysia Ministry of Tourism in undertaking strategic tourism research and market intelligence as well as providing training and capacity-building services in relation to Islamic tourism (ITC, 2016a, b). The products in MFHS are ranging from shopping tourism, eco-tourism, sports tourism, cultural and heritage, education tourism, health tourism, agro-tourism, marine tourism and events tourism (Tourism Malaysia, 2016a, b).

With the establishment of MFHS, ITC is seen as an Islamic hospitality and tourism expert pertaining to any references among stakeholders and industry players. ITC undertake a strategic research for tourism policy formulation that will enhance of MFHS by introducing the Muslim-friendly hospitality services standard in 2015—‘MS2610:2015—Muslim-Friendly Hospitality Services—Requirements’ that was initiated and led by International Institute for Halal Research & Training (INHART) of International Islamic University Malaysia (IIUM). Prior to that, Malaysia has published no less than ten Malaysian Standards (MS) which are used as a guideline not only nationwide but also globally. The MS2610:2015 is focusing on 3 main areas of Dalil Siyahi (Tourist Guide), Dhiyafah (Accommodation) and Safar and Siyahah (Travel and Tour).

In ensuring the growth of the hospitality industry, the demand for Malaysian hotels remained constant despite the continued increase in the accommodation sector. Based on the Malaysia’s success story in MFH, the government of Malaysia put a very high commitment in activating the whole tourism industry to make Malaysia as the significant market for the travel destination. For an instance to compare, in Malaysia, De Palma hotel, a Shari’ah-compliant hotel has embarked on a pioneering concept of providing hotel facilities based on Islamic compliance in 2006. De Palma hotel starts its journey in 1996 after sealing of cooperation between Perbadanan Kemajuan Negeri Selangor (PKNS) and Biztel Sdn. Bhd and the hotel is run under the conventional concept for nearly 12 years. Many achievements have been awarded to De Palma hotel including being chosen as the Best Hotel in the medium size category and the best surau (prayer hall) in the hotel category on 2009. In line with the motto ‘To enhance the Shari’ah Islamic Compliance’, De Palma hotel is making plan to upgrade their service level to honour the Islamic value of Islamic hospitality.

Besides De Palma Hotel group namely in Ampang, Shah Alam, Kuala Selangor and Sepang, PNB Perdana Hotel and Suites on The Park Kuala Lumpur or as known as PNB Darby Park Executive Suites previously also re-branding its name effective on 23 July 2015. This re-branding has taken PNB Perdana Hotel and Suites on The Park Kuala Lumpur to be a new refreshed brand that made to further strengthen and expand their identity in Muslim-friendly accommodation not only in this Malaysia but also across the globe. In 2014, PNB Darby Park Executive Suites was awarded a Muslim-friendly rating of 7 by Crescent Rating, its highest rating for Hotels which signifies that the hotel specialises in catering to Muslim-friendly requirements. The hotel has been increasingly focusing on adding services and facilities to cater to Muslim guests. Equipped with Halal certification, the two main restaurants at the hotel, 10 Binjai and The 39 Restaurant offer guests plenty of local and international Halal dining options. Both the restaurants have been Halal-certified by JAKIM since 2007. The hotel’s recreational facilities such as the swimming pool and sauna take

hajarsalwa@gmail.com
into consideration the needs of Muslim guest as well. Based on these two hotels as an introductory example, Malaysia Muslim-friendly hotels seems to be ready towards achieving MFH.

Conclusion

The pursuit of MFHS in Malaysia will create the biggest development in improving Malaysia economy stability. The tribute of Malaysia as the pioneer in the Halal industry and Islamic finance has made the discovering of MFHS to be vital. To surmised, Malaysia has portrayed the success story in MFHS and the journey will continue to develop in the near future. In making MFHS a vibrant area in research, the new research direction in Islamic hospitality should emphasise on exploring and strengthening the structure and concept of MFHS to maximise the lucrative benefits of the economy. Future research should explore and consolidate the MFHS structure to ensure the stability of the tourism and hospitality sector in Malaysia. Key business, technology and dynamic marketing trends are expected to take impact on the hospitality industry. With the emergent of the technologies, online applications as well as the social media engagement, the emerging of the MFH industry in Malaysia can be the valuable experience that should be shared globally. The diversity of culture and races in Malaysia led into the triumph and harmony in its Muslim-friendly lifestyle.

References


Corporate Governance Mechanisms and Financial Performance: A Comparative Study Between Local Islamic Banks and Local Conventional Banks in Malaysia

Haslindar Ibrahim, Jiunn-Shyan Khong, Zanaliza Abdullah and Afizar Amir

Abstract The study examines the relationship between the corporate governance mechanisms and the financial performance of banks, by comparing the financial performance of local conventional banks with local Islamic banks in Malaysia. This study focuses on seven local and full-fledged Islamic banks and eight fully local-owned conventional banks in Malaysia over the period of 7 years which span between 2009 and 2015. This constitutes a total of 105 number of observation. Henceforward, the corporate governance variables being used as independent variables are board size (BS), independent director proportion (IDP) and CEO’s gender (CG), and firm age and firm size act as control variables. On the other hand, the financial performance of both types of banks as dependent variables are calculated based on the accounting ratio to measure liquidity ratio (current ratio—CR), profitability ratio (return on assets—ROA), risk and solvency (loan-to-deposit ratio—LDR) and efficiency ratio (asset utilization ratio—AU). Pearson correlation matrix, panel data analysis (fixed effect model) and independent samples t-test had been used in this study. Based on the findings, only CEO’s gender showed a significant influence on liquidity, profitability, risk and solvency and efficiency of conventional banks. On the other hand, the independent director variable is examined to be only significant with the asset utilization ratio or efficiency for Islamic banks. Interestingly, there is a statistically significant difference in mean on the current ratio (CR) and asset utilization (AU) for performance between both banks. Meanwhile, there is no significant difference between Islamic banks and conventional banks on the financial performance of loan-to-deposit ratio (LDR) and return on asset ratio (ROA).

Keyword Local Islamic banks · Financial performance · Asset utilization ratio · Independent director proportion · Liquidity ratio
**Introduction**

Numerous incidences have occurred that has brought corporate governance to the forefront and emphasized its importance within a corporation. In the early 2000s, the massive bankruptcies of Worldcom, Enron, AOL, Arthur Andersen, Global Crossing, Tyco and Adelphia Communications led to an increased political interest in corporate scandals and corporate governance. During the financial crisis of 2007–2008, a tremendous number of financial institutions collapsed and resulted in a freeze of global credit markets and required government interventions worldwide. Some studies have shown how corporate governance affected firm performance during the crisis period (Erkens, Hung, & Matos, 2012).

Prior to the Asian financial crisis, the corporate governance requirement in Malaysia was limited. In 1997, in response to the crisis, the Malaysian government established the Malaysian Accounting Standards Board (MASB) and the regulations stated that all listed companies were required to appoint an audit committee that was independent of management and directors became liable for appropriate corporate governance of their corporation. In early 1999, a voluntary Code of Corporate Governance was recommended, and in March 2000, the Malaysian government formulated the Malaysian Code of Corporate Governance which is incorporated in the Kuala Lumpur Stock Exchange (KLSE) listing requirements and was necessary for listed companies to abide by. The rules and requirements contain, *inter alia*, the minimum number of independent directors that a listed company must have, appointment of an audit committee including at least three directors (majority of independent directors) and the appointment of external auditors (Morris, Pham, & Gray, 2011).

In modern times, the performance of financial institutions is also affected by the financial crisis. Therefore, they are performing numerous functions to offer a variety of products and services for different segments of the economy. The banking system is divided into two segments which are conventional banking and Islamic banking. Evidence suggests that Islamic banking is very much practiced like modern conventional banking with certain restrictions imposed by Shariah. There are studies that have found major differences that exist in the operations of Islamic Financial Institutions (IFIs) in comparison to conventional banking. IFIs have succeeded in gaining trust from depositors and deposits are accepted on a profit and loss sharing basis, but the comparison in investment and financing options available to Islamic banks are limited if compared to those that are available through conventional banking (Hanif, 2014).

Fiqh al-mu’amalat is the basis for the Islamic financial system and can be classified as a commerce law. This law takes into consideration issues of social justice, equity, fairness in all business transactions, promotion of entrepreneurship, protection of property rights and the transparency and sanctity of contractual obligations. The increasing number of Muslims who pursue their lives according to the Shariah, the legal code of Islam, has driven the emergence of Islamic banking. The history of modern Islamic banking started with the establishment of Mit Ghamr Savings Bank in Egypt in 1963 but the Islamic banking activities such as deposit-taking, traveller’s...
cheques issuance, money order and money exchange services have existed since the early days of Islam which was during the time of Prophet Muhammad (p.b.u.h.) and his Companions (Said, Hj Zainuddin, & Haron, 2009). The establishment of Nasser Social Bank in Egypt in 1971, the Dubai Islamic Bank in the United Arab Emirates followed by the Islamic Development Bank (IDB) in 1975 started a revolution of other Islamic financial institutions all over the world.

Nowadays, at least 70 countries have some form of an Islamic financial service (Abdul-Majid, Saal, & Battisti, 2009). The most prominent feature of Islamic banking is the prohibition of interest payment in transactions (Riba) and the prohibition of financing antisocial and unethical behaviour (Non-halal) such as gambling (Maisir), pornography and alcohol (Abdul-Majid et al., 2009). Some Islamic banks follow the regulations that are in place while some were converted regulations from conventional banks to adhere to shariah principles. However, the operation of an Islamic banking system in countries with a large Muslim population is somewhat similar to the conventional banking systems, as is evident in Malaysia, Bahrain, Pakistan, Saudi Arabia and Egypt (Ariss, 2010).

The new advancement in Islamic investments is attractive to both Muslims and non-Muslims who wish to invest in socially responsible products. The demand for Islamic banking is quite established and is being accepted and recognized worldwide due to the socially responsible and ethical foundations of an Islamic banking system. However, in terms of objectives, there are several differences between the Islamic banks (IB) and the conventional banks (CB). First, IB follows the principles of Shariah while CB follows the Standard Operating Procedure (SOP). Next, IB generates income as profits that are variable while CB generates from the fixed interest. Furthermore, IB shares the risk among the lender, borrower and bank while CB transfers the whole risk to the other party. In addition, IB is a traded-oriented unit while CB acts as a financial intermediary.

Islamic banks encounter numerous challenges due to the strong reaction from conventional banks since the conventional banks are well known and deeply rooted among the people. The increasing number of conventional and Islamic banks creates healthy competition for the setting up of quality service to keep customer satisfaction high for long-term benefits. Thus, the banking industry has benefited from the expansion as a result of diversification and innovation of products or services. In order to compete with each other for a greater number of customers that leads to more profitability, every bank contributes so much in effort to introduce innovative products and services by blending the traditional facilities and modern technology.

Islamic banking has been growing rapidly and has shown outstanding expansion in the last two decades despite the mismatching of business practices and financial framework. There are more than 300 Islamic banks operating in both the Muslim and Western countries up until the end of 2008. Western conventional banks are starting to provide products and services based on Shariah due to the increasing interest. By the end of 2012, the volume of assets under Islamic banking has achieved US$1460 billion with operation in more than 50 countries. Approximately, 74% of that was contributed by the Middle East, the centre of Islamic finance while the rest are contributed by the other parts of the world. In accordance with the growth, an Islamic
financial market has also been established in some countries such as Malaysia, in order to supplement the Islamic banking system. The Islamic banking system has a bright future ahead and moves alongside with the conventional banking system in meeting the global banking and financial needs.

Currently, there are many researches on corporate governance. However, these studies are less focused on the impact of corporate governance on the banking sector. In regard to corporate governance, a banks’ board of directors play a crucial role in the governance of the bank, such as monitoring managers’ behaviour and providing advices on identification and implementation of strategies (Andres & Vallelado, 2008). In the current studies, it is indicated that banks with larger boards tend to have lower liquidity but higher risk and profitability, however, in some studies in other countries such as Thailand showed that smaller board size enhances the overall financial performance of the bank. So does it imply that a bank with a larger board size performs better in terms of financial performance in Malaysia? For that reason, it is worth for us to study whether the difference in board size will significantly affect the banks’ financial performance.

According to Pathan, Skully, and Wickremanayake (2008), banks can enhance their performance by including more independence directors. Their study suggests that bank shareholders and stakeholders might benefit from policies that encourage an independent board. The result showed that ROA and ROE are positively correlated with board independence but the relationship is not significant. However, empirical findings on board independence and firm performance have been mixed. Therefore, the policies implemented by the Malaysian Code of Corporate Governance which states that all listed companies should contain a minimum number of independent directors, would it actually benefit the banks in terms of performance? What proportion of independent directors would be ideal in order to achieve sufficient and satisfying performance? Hence, a study should be carried out to illustrate the impact of independent directors on a firms’ performance in Malaysia so that local stakeholders can obtain a clearer picture regarding this issue.

In Malaysia, the government imposed a mandatory quota of at least 30% women directors on the board. Previous studies have found that CEOs of a different gender manages the organization in a different way. Hartarska, Nadolnyak, and Mersland (2014) have shown through their study that there is no significant difference between the CEO gender and bank performance in terms of profitability. However, female CEOs are able to manage the bank more efficiently than male CEOs due to lower overconfidence, better understanding of clients and higher risk aversion when initiating products and services. For that reason, this study also includes research about the influence of CEO gender on the overall financial performance of banks in Malaysia.

In addition, conventional banks and Islamic banks have different operation styles, for example, Islamic banks follow the Shariah principles which impose zero transaction interest while conventional banks operate in a contrary way. Empirical findings from previous studies have shown that there is no major difference in financial performance between Islamic banks and conventional banks, except in terms of liquidity (Ika & Abdullah, 2011). Thus, this research intends to test whether there is a significant difference between these two types of banks in Malaysia. All in all, the problems
mentioned have motivated us to do the research on this topic. These questions are also important for the scholars and executive to figure out a better board composition that could enhance the board effectiveness and performance. Therefore, this study aims to understand the relationship between the corporate governance mechanisms and the financial performance of local Islamic banks in comparison to the local conventional banks.

**Literature Review**

In this study, the corporate governance mechanisms will act as the independent variable, while the financial performance of banks will be the dependent variable. The corporate governance mechanisms that will be used in this study are board size (BS), independent directors proportion (IDP) and the CEO’s gender (CG), whereas the financial performance of banks will be measured by the liquidity ratio (CR), profitability ratio (ROA), risk and solvency ratio (LDR) and efficiency ratio (AU). But, since there are many ratios enclosed within each of these four types of ratios, only one ratio is selected under each ratio type. For example, the current ratio (CR) is chosen to represent the liquidity ratio of banks, return on assets (ROA) is chosen to represent the profitability ratio of banks, loan-to-deposit ratio (LDR) is chosen to represent the risk and solvency ratio of banks and asset utilization ratio (AU) is chosen to represent the efficiency ratio of banks.

The literature on corporate governance looks into the effects of independent directors, CEO’s gender, and board size on firm performance. Jensen and Meckling (1976) found that as management’s share of possession decreases, the incentive for management’s efforts to maximize the firm’s value is reduced. This results in an increase in agency cost and a decrease in the organizations net worth. Jensen and Meckling (1976) conclude that as management’s possession percentage will increase, firm value can increase as well. Ownership structure variations and their impact on CEO selection or retention problems were examined by Eldenburg, Hermalin, Weisbach, & Wosinska (2004). They find that the composition of the board of directors varies according to the possession structure and these differences cause variability in the factors that have an effect on the board of director’s turnover and the determinants of CEO retention. In addition, the degree of CEO or management monitoring is dependent on the composition of the board. A related study finds that the organizations worth is inversely connected to board size reflective of the actual fact that organizations with massive boards use their assets less efficiently and earn less profit (Yermack, 1996).

The results of research examining the impact of board independence (number of independent directors) on firm performance and value are mixed. Generally, there appears to be no empirical evidence that the existence and variety of outside administrators are related to firm performance. However, Weisbach (1988) examined whether the watching of management performance was more effective in outsider-dominated boards when putting next with insider-dominated boards. His study exam-
ined the effects of performance measures on CEO resignations, i.e. whether or not outsider-dominated boards monitor the performance of CEOs a lot closer than insider-dominated boards. He found that the composition of the board is indeed what determines the degree of CEO watching and that watching levels aren’t stricken by ownership structure variations, firm size or industry sort. Yermack (1996) examined the impact of board size on firm value. He found that the ratio of market worth of assets to the replacement cost of assets, return on assets and return on sales ratios are all reciprocally connected to board size. He concludes that companies with massive boards use assets with less efficiency and earn less profit.

Arun and Turner (2004) investigated the corporate governance of banking institutions in developing countries. They suggest that company governance for banks will solely take place once the implementation of a prudent regulative system is in place. Such a system should be in place before the transition from government possession to privatization of banks. Further, increased competition from foreign banks ought to improve the company governance of developing-country domestic banks.

Conventional Banking and Islamic Banking in Malaysia

The Malaysian Islamic Banking Act 1983 defines Islamic banking as a system of banking that complies with Islamic law and do not mix elements that are prohibited in Islam. This system targets the concept of ensuring ethics and material well-being of individuals and society as a whole which forbids activities that involve gambling (Maisir), interest (Riba) and speculative trading (Gharar) are not allowed (Hisham Yahya, Muhammad, & Razak Abdul Hadi, 2012). The enactment of the Islamic Banking Act 1983 enabled the country’s first Islamic bank to be established.

The first Islamic bank to operate in Malaysia was Bank Islam Malaysia Berhad (BIMB) which was incorporated under the Companies Act 1965 on 1 March 1983, and began operations on 1 July 1983. In 1989, amendments were made to Banking and Financial Institutions Act (BAFIA) to enable conventional banks to operate Islamic banking windows under the Islamic Banking Scheme (IBS). After a few years, BIMB has performed prominently as it was listed in Malaysian stock exchange (Kuala Lumpur Stock Exchange) on 17 January 1992 (Said et al., 2009). During this time, conventional banks started to implement Islamic counters to offer the public similar interest-free facilities. With support from the Malaysian Government, Islamic finance now holds more than 30% of market share (Rosly & Abu Bakar, 2003). At the end of 1993, the Islamic banking system in Malaysia consists of 1 Islamic bank and 20 conventional financial institutions which offer products and services based on Islamic principles. Furthermore, on 3 January 1994, the Islamic interbank market was introduced to meet short-term investment needs. On 1 October 1999, the second Islamic bank, Bank Muamalat Malaysia Berhad (BBMB) was established. Recently, there are around 40 financial instruments that are based on the Islamic system. As time progressed, several new banks have emerged providing a variety of financing products and services at almost no transaction cost. Research has shown that there
are a total of 401 licensed banking institutions in Malaysia now (Rosly & Abu Bakar, 2003).

In Malaysia, Islamic banking has made steady progress since the foundation of the first Islamic bank. Islamic banking performance has been growing gradually, recording an average annual growth of 48.5% in assets from year 2006 to 2009. At the year 2010, the Islamic banking sector continued being strong at 12.8% of asset growth and recorded RM256.6 billion in November, while deposits and financing rose to RM211.4 billion and RM160.1 billion. The Malaysian Central Bank believes that with the involvement of Islamic Banking the quality of investments and risk reduction will be further enhanced. Rosly and Abu Bakar (2003) have found through their study that Islamic banking scheme (IBS) banks have accounted higher return on assets (ROA) compared to conventional banks in Malaysia; nevertheless, it was found that the higher ROA ratio for IBS banks does not necessarily imply a higher level of efficiency. This finding represents that Islamic banks are less likely to surpass conventional banks on efficiency terms. Despite the fact that Islamic credit finance products are implemented in conjunction with Shariah principles, they are not expected to motivate IBS banks to compete for efficiency through the economy of scale and scope.

### Board Size and Financial Performance of Banks

According to the explanations from past studies, the effect of board size on a bank’s performance was two-folded. On the one hand, it is more reasonable for a bank with a large board to work towards optimizing the benefits of the majority as the board is affected by opinions representing the interests of majority shareholders; hence, a large board represents a diversified and democratic policy in terms of development strategies and decision making. On the other hand, a large board may slow down the decision-making process, invoke communication problems, be time-consuming and causes directors to make compromises. Consequently, this may lead to adverse effects on a bank’s performance. The overall board size could also affect a bank’s profitability (ROA) depending on which factor dominates the most (Rowe, Shi, & Wang, 2011).

Delis, Gaganis, and Pasiouras (2009) state that existing studies on banking have mostly ignored the effect of board characteristics on the banks’ liquidity risk. Their study used a cross-country sample consisting of 127 banks that were operating in 10 OECD countries from year 2000 to 2006. The findings showed that a larger board size will convey a negative impact on the bank liquidity. The reasons were that the larger board will more likely hold less liquid assets and invest a larger portion of their portfolios in risky events in order to gain higher returns and profits. However, this approach was very risky as in the downward times; the bank might face significant default risk due to the low level of liquidity (CR) and capitalization. Belkhir (2009) conducted a research on a sample of bank holding companies and savings and loan holding companies from year 1995 until end of year 2002 and the results showed that
the number of directors is positively associated with the return on assets (ROA) of a bank. In this study, by using regression models to test the data collected, it revealed that there was significant evidence indicating a positive relationship between board size and bank performance. In contrast with Belkhir’s study, Staikouras, Staikouras & Agoraki (2007) found that for European banks, profitability is negatively related to the size of the board of directors. Hence, the majority of the findings showed that board size was positively related to the profitability of firms.

Moreover, Sahut and Switzer (2015) stated that, from their empirical findings, they found that a larger and diversified board could benefit banks in distress states or when credit risk was overriding. This is due to the fact that when banks are in financial distress, they would find their investment policies tightening up, and default was very likely, smaller boards have higher chances of going bankrupt. Thus, they believed that there was a negative relationship between board size and bank credit risk (LDR). In addition, limiting the board size may improve the firm’s efficiency. Based on a sample of 792 companies across an eight-year period, the performance and market valuation of firms was found to decrease in relation with larger board size. According to the findings, a board size with a range of between 4 and 10 would cause the valuation from investors towards the companies to decline. Likewise, a range of board size between 4 and 10 decreases the profitability and asset utilization ratios significantly but the decrease becomes less significant once the board size goes beyond 11 (John and Senbet, 1998).

Therefore, the proposed hypotheses are:

\[ H1a: \text{Board size negatively related to liquidity ratio.} \]
\[ H1b: \text{Board size positively related to profitability ratio.} \]
\[ H1c: \text{Board size negatively related to risk and solvency ratio.} \]
\[ H1d: \text{Board size negatively related to efficiency ratio.} \]

**Independent Director and Financial Performance of Banks**

There are various elements associated with banking crises such as the degree of dependence on interest-sensitive funds, the accessibility to the money market, the volatility of deposits and the availability of assets readily convertible into cash. All of these elements are crucial to the banking industry as they will affect the level of bank liquidity risk; thus, board characteristics are liable for influencing the bank liquidity (CR). Previous studies disclosed that independent directors that hold a higher proportion of shares would result in a higher percentage of liquid assets in banks. However, too much liquidity was unnecessary for banks especially during an economic uptrend period; hence there was no need for too many independent directors in the board. Therefore, it can be said that banks with more independent directors showed a more conservative approach towards their liquidity risk (Delis et al., 2009).
According to Rowe et al. (2011), the banks’ profitability influenced by independent directors deserves specific investigations as they are critically important in banks governance and they represent all small shareholders in expressing their major opinions and views. Additionally, Ghaﬀar (2014) clarified that there is a positive relationship between board independency and profitability of Islamic banks in Pakistan. As the number of independent directors in a board increases, the profitability (ROA) of the bank will also increase due to the efficiency of the board. The existence of independent directors could assist in monitoring and controlling the operation in a better way, thus reducing agency cost. Belkhir (2009) described that the coefficient measured in regard to board independence is negatively related to the return on assets (ROA) of banks. The study tested this by increasing the members of independent directors in the banking industry and it did not enhance the bank’s performance, in other respects, it may negatively affect the performance. Generally, in reference to the most recent studies, the proportion of board independency was positively related to the return on assets (ROA) of banks.

Furthermore, there was a research which explained that separation of board independency and CEO or Chairman offered the board opportunity and ability to provide independent monitoring of management actions and lead the firm to achieve better overall performance. This study indicates that greater board independence was negatively related to a bank’s risk and solvency level (LDR). The evidence showed that 1% increase in board independence from its mean was equal to 0.0059% decrease in default probability which demonstrated that independent boards contribute to a lower bankruptcy probability to banks (Sahut & Switzer, 2015). Lastly, Dionne and Triki (2005) identified that a board’s independence is positively associated with corporate efficiency. The New York Stock Exchange’s listed companies require a majority of independent directors on the board. These results justified that independent directors were viewed as important as their jobs do not intersect with the CEO’s responsibility and they were free to make any decisions without being worried and afraid of their position and compensation being threatened.

So, the proposed hypotheses based on previous findings are:

- H2a: Independent directors positively related to liquidity ratio.
- H2b: Independent directors positively related to profitability ratio.
- H2c: Independent directors negatively related to risk and solvency ratio.
- H2d: Independent directors positively related to efficiency ratio.

**CEO’s Gender and Financial Performance of Banks**

The earlier literature tested that the impact of gender did not fully reflect individual investment decisions but some empirical results indicate that firm portfolio risk will increase in tandem with the increase in female board representation, although the change was both statistically and economically marginal (Berger, Kick, & Schaeck, 2014). According to the study by Ramly, Chan, Mustapha, and Sapiei (2015), they...
did not agree with prior researches that cited the inclusion of female directors would enhance the bank performance as their research showed contrasting findings. Their results disclosed that a higher proportion of female directors contributed to a significant negative impact on cost and profit efficiency (ROA). The author attributed this to the regulation imposed on the banks to increase female participation in the board. As a result, banks were forced to appoint female directors who were not well qualified and incapable of handling and performing tasks given to them in the banking sector. It is also quite uncommon in the culture of developing countries to have female executives in higher positions.

Likewise, as the number of women on the board increases, the internal growth factor would also increase while the leverage ratio will decrease. This may due to directors’ preferring to invest in safer projects and less went to R&D investments. By having women directors, studies have shown that the firms’ risk and solvency ratio (LDR) would be lower by 4% than other firms with male directors. Women directors tend to hold more liquid assets (CR) and this is demonstrated by the fact that women directors tend to rely more on internal funds to finance investments instead of debts. Nevertheless, women directors’ influences are mainly focused on financial risk-taking (corporate cash policy) and no significant impact is seen on total risk and managerial risk-taking (Loukil and Yousfi, 2013). It can be said that the gender factor does not affect the technical efficiency of the management process. But then again, the previous findings consistently indicate that higher diversity within the corporate board would reduce return on assets, return on equity, return on sales and the firm’s overall effectiveness (AU) (Gallego-Álvarez, García-Sánchez, & Rodríguez-Dominguez, 2010; Core, Holthausenm & Larcker, 1999).

Therefore, the proposed hypotheses for this study are:

\( H3a: \) CEO’s gender positively related to liquidity ratio.
\( H3b: \) CEO’s gender negatively related to profitability ratio.
\( H3c: \) CEO’s gender negatively related to risk and solvency ratio.
\( H3d: \) CEO’s gender negatively related to efficiency ratio.

**Financial Performance Between Islamic Banks and Conventional Banks**

According to the majority of studies, there is no significant difference in profitability between Islamic banks and conventional banks. In Pakistan and Indonesia, the measure of performance or ROA did not show any statistically significant difference between the Islamic banks and conventional banks (Ansari, 2009; Ika & Abdullah, 2011). However, in Malaysia, ROA was found to be significantly higher in Islamic banks (Rosly & Abu Bakar, 2003). In Indonesia, Islamic banks are controlled by Murabaha receivables. Similar to Indonesia, Islamic banks in other countries seem to be capable of meeting a higher current ratio (CR) in comparison to conventional banks. This might be due to the reason which relates to the dominant form of financ-
ing which is short term in nature. Islamic banks were required to maintain a high liquidity level to cover their short-term financing. This kind of financing has becoming increasingly famous as it charged interest differently compared to conventional banks and it incurs a lower risk investment for Islamic banks (Ika & Abdullah, 2011). Islamic banks also have to abide by Islamic principles which avoid them from offering high credit opportunity for investment compared to conventional banks. Therefore, Islamic banks obtained excess liquidity which benefited them in terms of having better asset quality (Ansari, 2009).

In addition, the previous results in Pakistan showed that there was no difference between Islamic banks and conventional banks in terms of risk and solvency (Ansari, 2009). On the other hand, Indonesia’s Islamic banks have a lower loan-to-deposit ratio (LDR). This is because Islamic banks have a lower percentage of assets tied up in loans as they did not rely merely on borrowed funds as conventional banks do. Therefore, the ability to pay debts for the Islamic bank is higher (Ika & Abdullah, 2011). Finally, study findings explained that there was no significant difference in efficiency measure between Islamic banks and conventional banks in Indonesia. In Pakistan, they showed a different result. The studies indicated that despite Islamic banks having better asset quality and a more stable position, at present Islamic banks were performing poorer compared to conventional banks on the basis of their operational efficiency level and business model (Aman, Sharif, & Arif, 2016). However, in Malaysia, the conventional banks are performing better in terms of asset utilization ratio (AU) compared to Islamic banks (Rosly & Abu Bakar, 2003).

The proposed hypotheses are:

\[ H4a: \text{There is a significant difference between Islamic banks and conventional banks in terms of liquidity ratio.} \]
\[ H4b: \text{There is a significant difference between Islamic banks and conventional banks in terms of profitability ratio.} \]
\[ H4c: \text{There is a significant difference between Islamic banks and conventional banks in terms of risk and solvency ratio.} \]
\[ H4d: \text{There is a significant difference between Islamic banks and conventional banks in terms of efficiency ratio.} \]

**Methodology**

**Sample Selection and Data Collection**

The population in this research focuses on the banks which are inclusive of both Islamic banks and conventional banks that are currently operating in Malaysia. According to data from Bank Negara Malaysia’s official website, the current population of Islamic banks and conventional banks in Malaysia are 16 and 27 banks, respectively. The sample is taken among the population and the sample size of this research are seven Islamic banks and eight conventional banks from year 2009 to
Table 1  Total sample size of Islamic banks

<table>
<thead>
<tr>
<th>Islamic Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total banks in Malaysia</td>
</tr>
<tr>
<td>Less: foreign ownership banks</td>
</tr>
<tr>
<td>Non-full-fledged Islamic banks</td>
</tr>
<tr>
<td>Total sample size of Islamic banks</td>
</tr>
</tbody>
</table>

Table 2  Total sample size of conventional banks

<table>
<thead>
<tr>
<th>Conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total banks in Malaysia</td>
</tr>
<tr>
<td>Less: Foreign ownership banks</td>
</tr>
<tr>
<td>Total sample size of conventional banks</td>
</tr>
</tbody>
</table>

2015. The selected elements in this study are the full-fledged Islamic banks as well as completely locally established Islamic banks and conventional banks. Tables 1 and 2 show the sample size in this study:

From 2007 to 2008, the whole world was affected by the worst financial crisis since the Great Depression of 1930s. This time period is also known as Global Financial Crisis and 2008 financial crisis. During the crisis, quite a number of large financial institutions collapsed and some of the banks were also affected. Therefore, even though the crisis was over by the end of 2008, it took time for the banks which still survived, to recover and stabilize their performance and position. Therefore, the data from year 2009 to 2015 was selected to indicate a more stable performance by the banks.

For the data collection, we first distinguished the 43 banks involved in this research. The lists of banks were obtained from Bank Negara Malaysia’s website and other relevant websites. The facts and figures were extracted from the banks’ annual report from year 2009 to 2015. The annual reports of the banks could also be obtained from the respective bank’s official website. The annual report is the most relevant source which supplies information about the board members and financial statements. By referring to the annual reports, relevant data such as the details of the board size, number of independent directors, gender of CEOs, bank’s liquidity, bank’s profitability, bank’s level of risk and solvency, bank’s efficiency, firm size and firm age could be identified.

**Independent Variable**

The independent variables for this study are board size (BS), independent director proportion (IDP) and CEO’s gender (CG)

hajarsalwa@gmail.com
Board Size

Board size is defined as the number of directors represented in the board of a company that has the right to attend the shareholders’ annual meeting and influence the company performance positively or negatively (Jensen, 1993; Belkhir, 2009). The way the board size is measured:

\[
\text{Board size} = \text{Total number of directors on the board}
\]

Independent Director

According to Kim, Mauldin, & Patro (2014), an independent director is separated from the firms’ routine operations. An independent director is a person who has no business or family ties to the management, and a person who is liable in several areas such as dealing with the firm’s customers, workers and suppliers (Belkhir, 2009). Therefore, firms can expect numerous inputs and updates from independent members, which have an independent view, expertise and skills that can bring ideas in a professional manner. The independent director proportion (IDP) variable is measured as the number of independent directors to the total number of directors on the board of the company. The variable of independent director is described as

\[
\text{Independent Director Proportion} = \frac{\text{number of independent directors}}{\text{Total number of directors on board}}
\]

CEO’s Gender

CEO’s gender is explained as the gender diversity in the board of directors, including the Chief Executive Officer (Ramly et al., 2015). Female CEO will take a value of ‘1’ or ‘0’ otherwise.

Dependent Variable

The dependent variables for this study are liquidity ratio (current ratio—CR), profitability ratio (return on assets—ROA), risk and solvency (loan-to-deposit ratio—LDR) and efficiency ratio (asset utilization ratio—AU).

Liquidity Ratio

Liquidity ratio measures the capability of the bank to meet its short-term obligations and the relationship between the banks’ liquid asset (current assets) and current
The current ratio (CR) is chosen in this study and the ratio’s formula is stated as

\[
\text{Current ratio (CR)} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

Acceptable current ratios differ from sector to sector and normally range between 1.5 and 3 indicating a healthy business. A low value for current ratio (CR < 1.00) indicates that the firm may have difficulty in meeting its short-term obligation. A higher value (CR > 1.00) indicates that the firm is more likely to meet its current obligations.

**Profitability Ratio**

Profitability ratio is explained as a ratio with a combination of effects from liquidity, asset management and debt management on firms’ operating results. This ratio also assesses the capability of the bank to generate earnings in comparison to its expenses and other relevant costs incurred during a certain period of time (Cornett et al., 2015). Return on assets (ROA) is chosen for this research and this ratio is illustrated as

\[
\text{Return on assets (ROA)} = \frac{\text{Net income available to common stockholders}}{\text{Total assets}}
\]

If the return on assets (ROA) is 0.2, it means the bank generates 20 cents of profit for every dollar of assets held by the bank. A higher ratio is a reflection of higher profitability of the bank, whereas a lower value is indicative of lesser profitability of the bank.

**Risk and Solvency Ratio**

Risk and solvency ratio shows a bank’s ability to generate cash flow and pay its debts and other long-term financial obligations (Ika & Abdullah, 2011; Ansari, 2009). Loan-to-deposit ratio (LDR) is selected for this study and the formula is

\[
\text{Loan to deposit ratio (LDR)} = \frac{\text{Loan}}{\text{Deposit}}
\]

If the ratio shows a value that is too high (>1.00), it implies that the bank may not have enough liquidity to cover future fund requirements and the bank may rely on its loan more than its deposits for generating income. However, if the value of the ratio is too low (<1.00), the bank may not be earning much and may rely on its own deposits to provide loans to its customers, without any borrowing.
Efficiency Ratio

Efficiency ratio measures the efficiency of an organization and how well the organization uses its assets and liabilities internally (Cornett et al., 2015). Asset utilization ratio (AU) will be used in this research and the formula is shown below:

\[
\text{Asset utilization ratio (AU)} = \frac{\text{Total operating income}}{\text{Total asset}}
\]

If the asset utilization ratio shows a value of 5, it means that the bank generates 5 dollars in sales for each dollar of assets. Consequently, it means that the higher the value of this ratio, the more effective the functioning of the bank.

Control Variable

Firm Size

Firm size in this study is represented by the amount of property, amount of sales or total number of employee in the banks. However, it is hard to define whether the banks are large or small as the actual figures of the elements stated above are difficult to identify (Yasuda, 2005). In this study, firm size is measured by the book value of the total assets of the banks (Florackis & Ozkan, 2004; Anderson & Reeb, 2003; McKnight & Mira, 2003).

Firm Age

Firm age is the period since the bank was legally formed or years since the banks’ foundations (Yasuda, 2005; Hussinger, 2008). In this study, the sample banks selected have been operating for more than 7 years.

Panel Data Analysis

This research uses a panel data of 15 banks in Malaysia, from year 2009 to 2015. Panel data analysis allows the study to take into account both cross-sectional and time series effects as it uses the collection of observations that cross section over several time series. A standard specification for analysing the panel data is

\[
Y_{it} = \alpha + \beta_1 X_{i1} + \beta_2 X_{i2} + \ldots + \beta_n X_{in} + \epsilon_{it}
\]
Y_{it} is the dependent variable of polling N across sectional observation and T time series observation while X_{it} are the independent variables pooling N cross-sectional observation and T time series observation. The index i refers to the unit of observation (bank) and t refers to the time period. α is the constant term of intercept across sectional observation, and it is the error term.

**Model 1: Regression Model Between Corporate Governance and Banks Financial Performance**

\[
FR = \alpha + \beta_1 BS_{it} + \beta_2 IDP_{it} + \beta_3 CG_{it} + \beta_4 FS_{it} + \beta_5 FA_{it} + \varepsilon_{it}
\]

where

- FR: Liquidity ratio, profitability ratio, risk and solvency ratio and efficiency ratio
- BS: Board size
- ID: Independent director
- CG: CEO’s gender
- FS: Firm size
- FA: Firm age

**Results**

**Descriptive Statistics**

Tables 3, 4 and 5 show the descriptive statistics for the dependent and independent variables from year 2009 to 2015. These results are inclusive of the mean and standard deviation of the variables such as board size (BS), independent director proportion (IDP), CEO’s gender (CG), firm size (FS), firm age (FA), current ratio (CR), return on assets (ROA), loan-to-deposit ratio (LDR) and asset utilization ratio (AU). The results are reflective of the full sample, Islamic banks and conventional banks.

Based on the findings, the means of the variables is almost split in between Islamic banks and conventional banks. Conventional banks have larger means in comparison to Islamic banks for board size (10.357), firm size (169,591,725.756), return on asset (0.2688) and loan-to-deposit ratio (0.83713). Islamic banks, on the other hand, have a higher mean when it comes to independent director proportion (0.53243), CEO’s gender (0.12286), current ratio (0.26857) and asset utilization (0.1014). This may be an indicator that Islamic banks have better liquidity performance in comparison to conventional banks. The full sample descriptive statistics show the overall mean for the various variables as board size (9.04747), independent director proportion (0.52987), CEO’s gender (0.11467), firm size (102,548,958.48), firm age (35.73333), current ratio (0.22227), return on asset (0.2607), loan-to-deposit ratio (0.79547) and asset utilization (0.0134).

Based on the result shown in Table 3 until Table 5, the board size for conventional banks has a broader range (8.714–13.143) compared to Islamic banks (6.571–9.143). The range of firm size also portrays a difference between Islamic banks (10,682,568.57–44,506,075.29) and conventional banks (hajarsalwa@gmail.com)
Conversely, the proportion of independent directors showed only a narrow range for both banks. The performance of both banks in terms of return on asset (ROA), loan-to-deposit ratio (LDR) and asset utilization ratio (AU) showed a smaller range for both types of banks; however, there was a slighter wider range for current ratio (CR) of both banks. Overall, there is a vast range for each variable as it covers all the data collected from both types of banks.

Table 3  Descriptive statistics for the overall period of 2009–2015

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BS</td>
<td>6.571</td>
<td>13.143</td>
<td>9.04747</td>
<td>1.977087</td>
</tr>
<tr>
<td>IDP</td>
<td>0.328</td>
<td>0.739</td>
<td>0.52987</td>
<td>0.122735</td>
</tr>
<tr>
<td>CG*</td>
<td>0</td>
<td>1</td>
<td>0.11467</td>
<td>0.260682</td>
</tr>
<tr>
<td>FS</td>
<td>10,682,568.57</td>
<td>356,540,225.3</td>
<td>102,548,958.48</td>
<td>113,807,557.78</td>
</tr>
<tr>
<td>FA</td>
<td>6</td>
<td>107</td>
<td>35.73333</td>
<td>30.62087</td>
</tr>
<tr>
<td>CR</td>
<td>0.131</td>
<td>0.366</td>
<td>0.22227</td>
<td>0.77284</td>
</tr>
<tr>
<td>ROA</td>
<td>0.017</td>
<td>0.038</td>
<td>0.2607</td>
<td>0.006397</td>
</tr>
<tr>
<td>LDR</td>
<td>0.54</td>
<td>0.942</td>
<td>0.79547</td>
<td>0.132961</td>
</tr>
<tr>
<td>AU</td>
<td>0.008</td>
<td>0.02</td>
<td>0.0134</td>
<td>0.003832</td>
</tr>
</tbody>
</table>

*Frequency for CEO’s gender: 88.57% have male CEO while 11.43% have female CEO

Table 4  Descriptive statistics of conventional banks for the overall period of 2009–2015

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BS</td>
<td>8.714</td>
<td>13.143</td>
<td>10.357</td>
<td>1.702363</td>
</tr>
<tr>
<td>IDP</td>
<td>0.337</td>
<td>0.658</td>
<td>0.52763</td>
<td>0.106444</td>
</tr>
<tr>
<td>CG*</td>
<td>0</td>
<td>1</td>
<td>0.1075</td>
<td>0.212653</td>
</tr>
<tr>
<td>FS</td>
<td>34,007,153.71</td>
<td>356,540,225.3</td>
<td>169,591,725.756</td>
<td>121,555,566.934</td>
</tr>
<tr>
<td>FA</td>
<td>15</td>
<td>107</td>
<td>54.5</td>
<td>29.59247</td>
</tr>
<tr>
<td>CR</td>
<td>0.131</td>
<td>0.301</td>
<td>0.18175</td>
<td>0.059025</td>
</tr>
<tr>
<td>ROA</td>
<td>0.022</td>
<td>0.036</td>
<td>0.2688</td>
<td>0.004612</td>
</tr>
<tr>
<td>LDR</td>
<td>0.662</td>
<td>0.942</td>
<td>0.83713</td>
<td>0.08529</td>
</tr>
<tr>
<td>AU</td>
<td>0.014</td>
<td>0.02</td>
<td>0.01625</td>
<td>0.002188</td>
</tr>
</tbody>
</table>

*Frequency for CEO’s gender: 89.29% have male CEO while 10.71% have female CEO
Table 5  Descriptive statistics of Islamic banks for the overall period of 2009–2015

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BS</td>
<td>6.571</td>
<td>9.143</td>
<td>7.55086</td>
<td>0.91652</td>
</tr>
<tr>
<td>IDP</td>
<td>0.328</td>
<td>0.739</td>
<td>0.53243</td>
<td>0.148041</td>
</tr>
<tr>
<td>CG(^a)</td>
<td>0</td>
<td>1</td>
<td>0.12286</td>
<td>0.325049</td>
</tr>
<tr>
<td>FS</td>
<td>10,682,568.57</td>
<td>44,506,075.29</td>
<td>25,928,653.02</td>
<td>11,884,109.22</td>
</tr>
<tr>
<td>FA</td>
<td>6</td>
<td>36</td>
<td>14.28571</td>
<td>12.645345</td>
</tr>
<tr>
<td>CR</td>
<td>0.17</td>
<td>0.366</td>
<td>0.26857</td>
<td>0.71983</td>
</tr>
<tr>
<td>ROA</td>
<td>0.017</td>
<td>0.038</td>
<td>0.02514</td>
<td>0.008295</td>
</tr>
<tr>
<td>LDR</td>
<td>0.54</td>
<td>0.93</td>
<td>0.74786</td>
<td>0.166748</td>
</tr>
<tr>
<td>AU</td>
<td>0.008</td>
<td>0.014</td>
<td>0.1014</td>
<td>0.00234</td>
</tr>
</tbody>
</table>

\(^a\) Frequency for CEO’s gender: 87.76% have male CEO while 12.24% have female CEO

**Independent Sample T-Test**

An independent sample t-test is a test which is used to determine if there are any significant differences between two groups in the variable of interest. The test is used to identify whether two groups are different from each other when the variable involved is interval or ratio scaled. Therefore, this test is proven to examine a nominal variable that is split into two subgroups such as Syariah and Non-syariah firms, family and non-family companies and younger and older employees (Sekaran & Bougie, 2009). For the purpose of this study, the two subgroups that will be tested are Islamic banks and conventional banks. The results will illustrate if there is any significant mean difference between these two groups in relation to their dependent variables. The results are tabulated in Table 6.

Further examination of the comparisons disclosed that current ratio (CR) of Islamic banks is slightly higher than conventional banks. The result supports the argument brought forward by Ansari (2009) who states that Islamic banks have better liquidity in comparison to conventional banks. In terms of profitability, conventional bank’s return on asset (ROA) is higher than that of Islamic banks. However, the difference is statistically not significant with a p-value greater than 0.05. This result is consistent with the empirical study conducted by Al-Mamun, Yasser, Entebang, Rahman, Nathan and Abu Mansor (2014). Hence, this result does not support the hypothesis of H4b which states that there is a significant difference in return on asset (ROA) mean between Islamic banks and conventional banks. Furthermore, the board size of conventional banks is much larger than Islamic banks. The result reveals that there is a statistical difference between the board size of Islamic banks and conventional banks. On the other hand, the risk and solvency do not show a significant difference in value. This result supports the literature of Ika and Abdullah (2011) who mentioned that there is no major difference in financial performance between Islamic banks and conventional banks. The firm age (FA) of conventional banks also
Table 6  Differences of means test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Islamic banks</th>
<th>Conventional banks</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(N = 7)</td>
<td>(N = 8)</td>
<td></td>
</tr>
<tr>
<td>A: Corporate governance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>7.55086</td>
<td>10.357</td>
<td>−3.885&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Independent director proportion</td>
<td>0.53243</td>
<td>0.52763</td>
<td>0.073</td>
</tr>
<tr>
<td>B: Financial performance of banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting measures:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio (CR)</td>
<td>0.26857</td>
<td>0.18175</td>
<td>2.568&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Return on asset (ROA)</td>
<td>0.02514</td>
<td>0.2688</td>
<td>−0.509</td>
</tr>
<tr>
<td>Loan-to-deposit ratio (LDR)</td>
<td>0.74786</td>
<td>0.83713</td>
<td>−1.278</td>
</tr>
<tr>
<td>Asset utilization (AU)</td>
<td>0.1014</td>
<td>0.01625</td>
<td>−5.223&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>C: Banks characteristics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm age</td>
<td>14.28571</td>
<td>54.5</td>
<td>−3.327&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a</sup>significant at 0.05 level

indicates a significantly higher and larger value compared to Islamic banks. This is due to the fact that conventional banks have longer history and larger firm size (asset hold) compared to Islamic banks.

Comparison Between Islamic Banks and Conventional Banks from Year 2009 to 2015

Current Ratio (CR)

There is a downward trend for current ratio from year 2009 to 2015 as shown in Fig. 1. Nonetheless, Islamic banks have better liquidity performance compared to conventional banks. This may be due to the fact that conventional banks have larger boards which results in higher liquidity risk compared to Islamic banks.

Return on Assets (ROA)

Based on Fig. 2, both types of banks have been quite consistent when it comes to profitability throughout the period from year 2009 to 2015. However, the return on assets ratio of conventional banks has outperformed the Islamic banks in during the 7 years period. This may be due to the difference in policies implemented by both
types of banks. Islamic banks are required to follow the principles of Shariah while conventional banks follow the Standard Operating Procedure (SOP).

**Loan-to-Deposit Ratio (LDR)**

Figure 3 exhibits the loan-to-deposit ratio of Islamic banks and conventional banks. It can be seen that both banks are stable while experiencing a slight incline from year 2009 to 2015. But there is a slight difference in this ratio between the two types of banks which illustrates that conventional banks have a better risk and solvency management system compared to Islamic banks.
Corporate Governance Mechanisms and Financial …

**Fig. 3** Comparison between Islamic banks and conventional banks by using annual average of loan-to-deposit ratio for year 2009–2015

**Fig. 4** Comparison between Islamic banks and conventional banks by using an annual average of asset utilization ratio for year 2009–2015

**Asset Utilization Ratio (AU)**

Figure 4 demonstrates that the asset utilization ratio for both types of banks is moving in tandem from year 2009 to 2015. It can be seen that in terms of efficiency, conventional banks outperform Islamic banks. This can be explained by the fact that Islamic banks are not expected to compete in the market through efficiency models by way of scale and scope economies.

**Correlation Analysis**

Pearson correlations was used to determine the intercorrelation between all our study variables which are board size (BS), independent director proportion (IDP), CEO’s gender (CG), firm size (FS), firm age (FA), current ratio (CR), return on assets (ROA), loan-to-deposit ratio (LDR) and asset utilization ratio (AU). Table 7 shows the summary of the results.
<table>
<thead>
<tr>
<th></th>
<th>BS</th>
<th>IDP</th>
<th>CG</th>
<th>FS</th>
<th>FA</th>
<th>CR</th>
<th>ROA</th>
<th>LDR</th>
<th>AU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size (BS)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independent director proportion (IDP)</td>
<td>-0.324</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO’s gender (CG)</td>
<td>-0.006</td>
<td>-0.121</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm size (FS)</td>
<td>0.595&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.165</td>
<td>-0.202</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm age (FA)</td>
<td>0.62&lt;sup&gt;a&lt;/sup&gt;</td>
<td>-0.228</td>
<td>0.19</td>
<td>0.569&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio (CR)</td>
<td>-0.318</td>
<td>-0.238</td>
<td>0.504</td>
<td>-0.491</td>
<td>-0.291</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on asset (ROA)</td>
<td>0.335</td>
<td>-0.007</td>
<td>-0.336</td>
<td>0.097</td>
<td>0.099</td>
<td>-0.504</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan-to-deposit ratio (LDR)</td>
<td>0.073</td>
<td>0.572&lt;sup&gt;a&lt;/sup&gt;</td>
<td>-0.361</td>
<td>0.336</td>
<td>-0.145</td>
<td>-0.327</td>
<td>0.199</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Asset utilization (AU)</td>
<td>0.695&lt;sup&gt;b&lt;/sup&gt;</td>
<td>-0.2</td>
<td>-0.09</td>
<td>0.626&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.497</td>
<td>-0.574&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.302</td>
<td>0.401</td>
<td>1</td>
</tr>
</tbody>
</table>

<sup>a</sup>Correlation is significant at the 0.05 level (two-tailed)

<sup>b</sup>Correlation is significant at the level 0.01 level (two-tailed)
Based on the findings, we can see that the current ratio of banks is negatively correlated towards all the variables in this study except for CEO’s gender. This is an indication that female CEOs tend to result in a higher liquidity of the bank. The findings also show that there is a significant correlation between firm size and board size, meaning the larger the firm size, the larger the board tends to be. Board size is also significantly correlated to firm age as well as asset utilization. This means that the larger the board, the banks tend to operate more efficiently. It is also worthy to mention that the loan-to-deposit ratio is also statistically significantly correlated to the independent director proportion. This validates that the higher number of independent directors on the board leads to a better risk and solvency ratio.

**Multiple Regression Result**

The data of this study was analysed by using the multiple regression (panel data analysis) method. The following table summarizes the results of the model (fixed effect model) for local Islamic banks and local conventional banks for the period of 2009–2015.

Based on Table 8, in the case of conventional banks, board size (BS) has shown a significant positive relationship with current ratio (CR) for the overall period. This result does not support the hypothesis H1a which states that board size is related negatively to liquidity ratio. CEO’s gender also has a significant positive relationship with the liquidity ratio and this fully supports the hypothesis H3a. This result is consistent with a previous study conducted by Loukil and Yousfi (2013). On the other hand, the results for Islamic banks show no significant relationship between most of the independent variables towards current ratio (CR), except for the CEO’s gender (CG). The CEO’s gender (CG) points to a significant negative relationship with current ratio (CR). Firm age (FA) for both banks has a significant negative relationship with current ratio (CR). However, largely, the independent variables do not influence the liquidity performance of both types of banks.

Based on the result shown in Table 9, almost all the independent variables for Islamic banks do not show any significant relationship with the return on asset (ROA) of banks. This means that the corporate governance of banks does not give any impact on the profitability of banks. However, only the CEO’s gender in conventional banks shows a negative significant relationship towards the return on asset (ROA), which supports the hypothesis H3b.

According to the findings, only the CEO’s gender in conventional banks show a significant negative relationship towards the loan-to-deposit ratio (LDR) and this supports the hypothesis H3c. The rest of the variables do not demonstrate any significant relationship towards this risk and solvency ratio. This indicates that corporate governance does not impact the risk and solvency of both Islamic and conventional banks.

According to the results obtained from the analysis, it shows that for Islamic banks only the independent director proportion has a significant positive relationship at the
level of 0.1. This supports the hypothesis H2d. On the other hand, for conventional banks, only CEO’s gender experiences a significant negative relationship towards the asset utilization ratio (AU). This is in line with the hypothesis H3d. Therefore, it can be said that the bank’s corporate governance does not directly affect the efficiency of the bank.

**Discussion**

The CEO’s gender of conventional banks showed a positive relationship towards the liquidity performance of the banks. CEO’s gender has been mentioned in past literature (Delis et al., 2009) which states that there is a significant influence in the liquidity performance of banks. In this study, CEO’s gender has shown a positive influence on the current ratio of banks. Hence, our findings are supported by the literature mentioned. However, this study is not supported by the other literatures in terms of liquidity performance as our study demonstrates results that are statistically insignificant between the corporate governance mechanisms and liquidity.

**Table 8** The fixed effect models for current ratio (CR)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Full sample</th>
<th>Local Islamic banks</th>
<th>Local conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.281</td>
<td>−2.183^b</td>
<td>−0.364</td>
</tr>
<tr>
<td></td>
<td>(0.378)</td>
<td>(−2.063)</td>
<td>(−0.399)</td>
</tr>
<tr>
<td>Board size</td>
<td>0.011</td>
<td>−0.001</td>
<td>0.009^c</td>
</tr>
<tr>
<td></td>
<td>(1.634)</td>
<td>(−0.110)</td>
<td>(1.905)</td>
</tr>
<tr>
<td>CEO’s gender</td>
<td>−0.016</td>
<td>−0.145^c</td>
<td>0.086^a</td>
</tr>
<tr>
<td></td>
<td>(−0.465)</td>
<td>(−1.919)</td>
<td>(3.534)</td>
</tr>
<tr>
<td>Independent director proportion</td>
<td>0.025</td>
<td>−0.031</td>
<td>0.019</td>
</tr>
<tr>
<td></td>
<td>(0.311)</td>
<td>(−0.291)</td>
<td>(0.268)</td>
</tr>
<tr>
<td>Firm age</td>
<td>−0.034^a</td>
<td>−0.068^a</td>
<td>−0.019^b</td>
</tr>
<tr>
<td></td>
<td>(−4.602)</td>
<td>(−6.212)</td>
<td>(−2.555)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.135</td>
<td>0.472^a</td>
<td>0.178</td>
</tr>
<tr>
<td></td>
<td>(1.069)</td>
<td>(2.904)</td>
<td>(1.119)</td>
</tr>
<tr>
<td>Observation</td>
<td>105</td>
<td>49</td>
<td>56</td>
</tr>
<tr>
<td>R^2</td>
<td>0.723</td>
<td>0.785</td>
<td>0.810</td>
</tr>
<tr>
<td>Adj. R^2</td>
<td>0.661</td>
<td>0.721</td>
<td>0.758</td>
</tr>
<tr>
<td>F-stat (p-value)</td>
<td>11.677 (0.000)</td>
<td>12.296 (0.000)</td>
<td>15.318 (0.000)</td>
</tr>
</tbody>
</table>

^a significant at 0.01 level, ^b significant at 0.05 level, ^c significant at 0.10 level
Additionally, independent director proportion only has a significant relationship towards the efficiency of Islamic banks. This is consistent with the findings of the study by the Sahut and Switzer (2015) and Dionne and Triki (2005) which disclosed that percentages of independent directors will relate positively to the efficiency ratio. Conversely, the independent director proportion or board independency does not create any significant positive or negative impact towards the liquidity (CR), profitability (ROA), risk and solvency (LDR) and efficiency (AU) of conventional banks. Therefore, the findings of this study are not consistent with the research of Delis et al. (2009) which states that banks with more independent directors showed significant higher liquidity and the study from Ghaffar (2014), who explained that bank’s profitability is significantly and positively influenced by board independency.

In regard to the CEO’s gender, in past literature done by Loukil and Yousfi (2013), it indicates that female CEOs is one of the variables which positively influence the current ratio (CR) of banks. A female CEO will more likely secure more liquid assets to prepare for their payment on short-term debt and prevent the banks from getting into default risk. Hence, based on this study’s findings, it showed the same results for conventional banks. However, the results for Islamic banks are negatively related. Based on the findings of this study, the CEO gender is also negatively related to the efficiency of conventional banks. This is supported by previous studies done

Table 9  The fixed effect models for return on asset (ROA)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Full sample</th>
<th>Local Islamic banks</th>
<th>Local conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.037 (0.934)</td>
<td>0.065 (1.032)</td>
<td>0.124 (1.963)</td>
</tr>
<tr>
<td>Board size</td>
<td>−0.001 (−1.556)</td>
<td>−0.001 (−1.637)</td>
<td>4.72 (0.013)</td>
</tr>
<tr>
<td>CEO’s gender</td>
<td>−0.001 (−0.599)</td>
<td>0.001 (0.288)</td>
<td>−0.004 (−2.421)</td>
</tr>
<tr>
<td>Independent director proportion</td>
<td>0.004 (0.931)</td>
<td>0.008 (1.274)</td>
<td>3.26 (0.006)</td>
</tr>
<tr>
<td>Firm age</td>
<td>−0.001 (−1.161)</td>
<td>5.62 (0.086)</td>
<td>−0.001 (−0.546)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.001 (0.167)</td>
<td>−0.005 (−0.517)</td>
<td>−0.010 (−0.916)</td>
</tr>
<tr>
<td>Observation</td>
<td>105 (17.679)</td>
<td>49 (0.000)</td>
<td>56 (0.000)</td>
</tr>
<tr>
<td>R²</td>
<td>0.798 (0.753)</td>
<td>0.829 (0.778)</td>
<td>0.786 (0.726)</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.753 (16.324)</td>
<td>0.778 (0.724)</td>
<td>0.726 (0.726)</td>
</tr>
<tr>
<td>F-stat (p-value)</td>
<td>17.679 (0.000)</td>
<td>16.324 (0.000)</td>
<td>13.166 (0.000)</td>
</tr>
</tbody>
</table>

*a*significant at 0.01 level, *b*significant at 0.05 level, *c*significant at 0.10 level

hajarsalwa@gmail.com
Table 10  The fixed effect models for loan-to-deposit ratio (LDR)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Full sample</th>
<th>Local Islamic banks</th>
<th>Local conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>$-1.727^b$</td>
<td>0.434</td>
<td>$-2.079^b$</td>
</tr>
<tr>
<td></td>
<td>($-2.183$)</td>
<td>(0.333)</td>
<td>($-2.139$)</td>
</tr>
<tr>
<td>Board size</td>
<td>$-0.005$</td>
<td>$-0.001$</td>
<td>$-0.004$</td>
</tr>
<tr>
<td></td>
<td>($-0.723$)</td>
<td>($-0.106$)</td>
<td>($-0.725$)</td>
</tr>
<tr>
<td>CEO’s gender</td>
<td>0.014</td>
<td>0.118</td>
<td>$-0.064^b$</td>
</tr>
<tr>
<td></td>
<td>(0.383)</td>
<td>(1.271)</td>
<td>($-2.453$)</td>
</tr>
<tr>
<td>Independent director proportion</td>
<td>$-0.047$</td>
<td>0.045</td>
<td>$-0.122$</td>
</tr>
<tr>
<td></td>
<td>($-0.564$)</td>
<td>(0.339)</td>
<td>($-1.565$)</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.010</td>
<td>0.039(^a)</td>
<td>$-0.008$</td>
</tr>
<tr>
<td></td>
<td>(1.299)</td>
<td>(2.85)</td>
<td>($-0.988$)</td>
</tr>
<tr>
<td>Firm size</td>
<td>$0.288^b$</td>
<td>$-0.036$</td>
<td>$0.426^b$</td>
</tr>
<tr>
<td></td>
<td>(2.155)</td>
<td>($-0.180$)</td>
<td>(2.511)</td>
</tr>
<tr>
<td>Observation</td>
<td>105</td>
<td>49</td>
<td>56</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.834</td>
<td>0.853</td>
<td>0.859</td>
</tr>
<tr>
<td>Adj. $R^2$</td>
<td>0.797</td>
<td>0.809</td>
<td>0.819</td>
</tr>
<tr>
<td>F-stat (p-value)</td>
<td>22.424 (0.000)</td>
<td>19.573 (0.000)</td>
<td>21.803 (0.000)</td>
</tr>
</tbody>
</table>

\(^a\)significant at 0.01 level, \(^b\)significant at 0.05 level, \(^c\)significant at 0.10 level

by Gallego-Álvarez et al. (2010), Core, Holthausen, and Larcker, (1999), Ramly et al. (2015) and Berger et al. (2014). These past studies claim that female CEOs are negatively correlated with the efficiency ratio of banks.

The independent samples t-test presents a strongly significant difference between the profitability of Islamic banks and conventional banks. This may due to the fact that the two banks abide by different policies and principles. For example, Islamic banks have to obey to *riba* principles which state that the bank is not allowed to charge any transaction fee or interest on its customers whereas conventional banks are free to do so. This might be one of the contributing factors that lead to the profit difference between the two banks. This finding is supported by the study conducted by Al-Mamun et al. (2014) who studied the comparison of financial performance between Islamic banks and conventional banks in Malaysia as well. This study indicated that conventional banks tend to perform better in profitability. The independent samples t-test also shows a strongly significant difference between the efficiency of Islamic banks and conventional banks. This is supported by the findings from previous researches of Ika and Abdullah, (2011) and Ansari (2009). These researches identified that Islamic banks have a higher efficiency level if compared with conventional banks.

hajarsalwa@gmail.com
Table 11 The fixed effect models for asset utilization ratio (AU)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Full sample</th>
<th>Local Islamic banks</th>
<th>Local conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.016</td>
<td>0.052</td>
<td>0.064</td>
</tr>
<tr>
<td></td>
<td>(0.566)</td>
<td>(1.262)</td>
<td>(1.265)</td>
</tr>
<tr>
<td>Board size</td>
<td>−0.001</td>
<td>−0.001</td>
<td>6.28</td>
</tr>
<tr>
<td></td>
<td>(−1.148)</td>
<td>(−1.239)</td>
<td>(0.218)</td>
</tr>
<tr>
<td>CEO’s gender</td>
<td>−0.001</td>
<td>0.001</td>
<td>−0.003b</td>
</tr>
<tr>
<td></td>
<td>(−0.742)</td>
<td>(0.149)</td>
<td>(−2.3365)</td>
</tr>
<tr>
<td>Independent director</td>
<td>0.006c</td>
<td>0.008c</td>
<td>0.006</td>
</tr>
<tr>
<td>proportion</td>
<td>(1.947)</td>
<td>(1.817)</td>
<td>(1.438)</td>
</tr>
<tr>
<td>Firm age</td>
<td>−0.001</td>
<td>0.001</td>
<td>−0.001</td>
</tr>
<tr>
<td></td>
<td>(−1.602)</td>
<td>(0.689)</td>
<td>(−1.658)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.002</td>
<td>−0.006</td>
<td>−0.002</td>
</tr>
<tr>
<td></td>
<td>(0.349)</td>
<td>(−0.993)</td>
<td>(−0.203)</td>
</tr>
<tr>
<td>Observation</td>
<td>105</td>
<td>49</td>
<td>56</td>
</tr>
<tr>
<td>R²</td>
<td>0.762</td>
<td>0.570</td>
<td>0.669</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.708</td>
<td>0.442</td>
<td>0.577</td>
</tr>
<tr>
<td>F-stat (p-value)</td>
<td>14.292 (0.000)</td>
<td>4.462 (0.000)</td>
<td>7.250 (0.000)</td>
</tr>
</tbody>
</table>

*a* significant at 0.01 level, *b* significant at 0.05 level, *c* significant at 0.10 level

**Conclusion**

In conclusion, out of the three corporate governance variables tested in this study, only one independent variable has a significant impact on the liquidity performance of both banks, which is the CEO’s gender. Therefore, by appointing a female CEO, banks might improve its’ current ratio (CR) and maintain its’ optimal liquidity performance. However, some considerations may be needed as the result showed that having a female CEO may bring no significant positive effects on the bank’s profitability, risk and solvency and efficiency performance, regardless of it being an Islamic or conventional bank.

Subsequently, as it is demonstrated that there is a negative relationship between board size and liquidity within the Islamic banks, it is advisable for Islamic banks to minimize its’ board size, since a larger board may sometimes lead to default risk during the times of economic uncertainty. This is due to the fact that a larger board may cause miscommunication problems and directors may tend to get involved in risky activities.

Both banks may also consider including more independent directors into the board as most of the empirical studies have explained the significant benefits of including the participation of independent directors. For example, the greater proportion of
independent director will bring a positive impact on the bank’s liquidity (CR), profitability (ROA) and efficiency (AU). Independent directors would also bring about a reduction in the risk of solvency (LDR) of banks. Nevertheless, the findings that we obtained from the sample banks in Malaysia indicate that the independency of the board does not generate significant impacts on the financial performance of both banks. Therefore, in reality, the banks might need to examine further on the influences of independent director.

In overall, the independent variables do not play a major role in influencing the financial performances of banks. Therefore, it can be said that the corporate governance of banks does not bring any significant effects on the financial performance of banks except for the role that the CEOs gender play. However, interestingly it can be seen that there is a significant difference in the liquidity performance between both banks. Therefore, as investors, who would like to gain profits, they may look at conventional banks where the profitability is higher but there is also a higher risk level associated with it. On the other hand, investors who would prefer a more efficient banking system that also provides a sense of security, in a way that the bank is more liquid, then they can look into Islamic banks.

Acknowledgements The first author would like to thank Universiti Sains Malaysia for granting a Bridging Grant No. 304.PMGT.6316293.

References


hajarsalwa@gmail.com
Reconstruction of the Islamic Sustainable Development Index

Wan Norhaniza Wan Hasan

Abstract This study aimed to scrutinise the best method for constructing an Islamic sustainable development index. A review on the current Islamic development index found that most development indexes that symbolises Islam were constructed based on the conventional development index adduced by international organisations, especially the United Nations. Apart from that, there were some suggestions from academicians to apply the Islamic perspective in the Sustainable Development Goals (SDG) so that it could be used by Islamic countries. A qualitative analysis on written materials and documents related to Islamic development indexes found at least two main approaches could be used as a method in constructing the Islamic sustainable development index. First, by returning to the original fiqh approach using the ‘dismantling the fundamentals’ method and second, the Islamization method that involves accommodation and modification of the existed conventional discipline according to the Islamic principles.

Keywords Development index · Sustainable development · Islamization · Epistemology

Introduction

Development index is used to measure the level of development. It contains development indicators relevant to the development that was intended to be measured. The indicators were aggregated through statistical methods to form the development index. Besides the aim of measuring the level of development of a country from time to time (OECD, 2009), the development index was also used to compare the level of development between countries (Berenger & Verdier-Chouchane, 2007). In addition, the development index is also used to evaluate the effectiveness of development policies’ implementation (OECD, 2009).
Generally, development has a wide definition. Thus, an accurate definition of development allows precise determination for the measurement of development. An accurate measurement of development enables the level of development in countries around the world to be determined and understood (Todaro & Smith, 2012). Changes on the patterns of development’s definitions can be distinguished where it was initially defined based on economic factors interpreted as growth in income (Meier, 1984). The main aim of development based on this definition was to eradicate poverty, to narrow the inequalities as well as to improve the global standard of living.

In the 1990s, countless forms of debates related to rights, quality of life as well as welfare were conducted, conceivably as the consequence of the awareness towards non-economical factors in human life and national development. Sen (1983) emphasised that development should contribute towards the enhancement of human capabilities and abilities. Sen (1983) argued that development should not only enable people to ‘function’ but most importantly, to have the capability and freedom to achieve their potential as well as to experience self-ability (Sen, 1983; UNDP, 2007).

In order for development to be seen as more comprehensive, environmental elements should also be considered. Hence, it emerges as a form of development that is comprehensive with the economic, social and environmental elements so-called sustainable development. More precisely, sustainable development not only sees development as a form of current progress but also sets its sight on the progress of future generations.

Sustainable development is said to be a solution for the development crises faced by almost the whole world. The development that was first pioneered as an effort to nurture the environment, were then moved up to social well-being then economic fairness, had become the main objective for the current leaders of the world via the Sustainable Development Goals, (SDG). Sustainable development is a kind of development that takes into consideration every element of the ecosystem, including the economic, social and environmental aspects in efforts to ensure the well-being and harmony of people, including the future generation. Commitment in fulfilling the SDG is also included as an objective amongst the Muslim-majority countries, which are also countries that are members of the Organisation of Islamic Cooperation, (OIC).

There are 17 goals in the SDG, as well as 230 individual indicators, which shows that some of the indicators found in SDG were not compatible with Syariah and Islamic values. This shows the need for a specific index is in line with the Islamic Syariah so that sustainable development desired by Muslims could be targeted. Therefore, this article adduced the approach that could be used for constructing an Islamic sustainable development index.

The Construct of Islam-Related Development Index

Review on the study and literature that discusses on development index shows that the index issued by the United Nations Development Programme (UNDP), called...
as the Human Development Index (HDI) has been the interest of many researchers. Consequently, this index has become an important reference for constructing the development index, including development indexes related to Islam. This approach was implemented, among others, by Dar and Otiti (2002) as well as Anto (2011).

Dar and Otiti (2002) had studied HDI by applying Islamic elements into the index. Their study suggested the inclusion of ethical values into HDI. The suggested modified index was called the Ethics-augmented HDI (E-HDI). They intended to produce an index according to the maqasid Syariah framework. Based on their study, the E-HDI contained four extra indicator components that were integrated apart of the three basic indicator components from HDI, namely health, economics and social. The extra indicator components were freedom, rate of carbon dioxide emissions, family values and faith (Dar, 2004). Although the maqasid Syariah framework was used, the faith indicator component in E-HDI was only measured based on the visibility of religion, legal system and government on a country without considering whether that visibility was based on Islam or any other religion. This approach was taken by Dar and Otiti (2002) to allow their index to be used globally without considering whether the country is a Muslim-majority country or not.

Besides E-HDI that applies Islamic elements, HDI was also adapted by Anto (2011), who produced the Islamic Human Development Index (I-HDI). As in the E-HDI, this index also used maqasid Syariah as its framework. I-HDI also contained similar indicator components as of E-HDI, such as faith, life, education, property, family, freedom and environment as well as an additional indicator component, fairness. Although it contained indicator components that were almost similar, I-HDI had more indicators compared to E-HDI.

The clear difference between I-HDI and E-HDI were embedded in the faith component. When E-HDI measured the faith component through religious visibility as well as the influence of religion on the legal system, constitution and government, the I-HDI used the crime and corruption indicators as proxies to portraying this component. Anto (2011) argued that the faith component that contains religious aspects should be encompassed with indicators that can measure vision, commitment and comprehensive implementation of Islamic teachings in a society. However, due to the limitation in obtaining data, proxies were used based on the crime and corruption indicators. According to Anto (2011), both proxies were chose based on the rational that Islamic society should avoid any conduct of corruption, cheating or any form of manipulation.

The usage of maqasid Syariah to construct the development index as implemented by E-HDI and I-HDI, however, were not carried out by Rehman and Askari (2010), the inventor of the Islamicity Index, I 2. These scholars adduced four concepts as the philosophical underpinning. The four concepts comprised of walayah, karamah, meethaq and khilafa. Based on these four concepts, four Islamic sub-indexes were presented, which consist of Economic Islamicity Index, EI 2, Legal and Governance Islamicity Index, LGI 2, Human and Political Rights Islamicity Index, HPI 2 as well

---

1The indicator component that is mentioned as the sub-index science in I-HDI.
2This indicator component is stated as the sub-index family social in I-HDI.
as International Relations Islamicity Index, \text{IRI}^2 to form \text{I}^2. It was foreseen that the combination of these four sub-indexes would measure the various dimensions of PBI (Rehman & Askari, 2010). These four sub-indexes also contained 22 indicators that formed all the \text{I}^2 indexes.

E-HDI, I-HDI and \text{I}^2 each measure developments and make comparisons of the level of development among countries based on indicators in each index. These indexes also presumed that the countries in the Organization of Islamic Conference (OIC) are Islamic countries (Anto, 2011; Dar & Otiti, 2002; Rehman & Askari, 2010). The practices of all three current Islamic development indexes are different from the practices of the Malaysian Ummah Development Index, MUDI. MUDI, published by the Malaysian Institute of Islamic Understanding (IKIM), specifically measures Muslim community development in Malaysia (Hamid, 2007). MUDI combines the three sub-indexes, comprising the Economic Development Index (IPE), Social Development Index (IPS) and Spiritual Development Index (IPR) (Osman, 2012). MUDI is also the outcome of a previous index introduced before it, namely the Ummah Development Index (IPU), that has three similar sub-indexes but with different indicators (Hamid, 2007).

The indicators and basic components in the development indexes related to Islam that are discussed here are shown in Table 1.

*Three components were added aside of the components that are closely related to the existing five objectives of Syariah in I-HDI as these components were believed as important to be addressed in development by this index

Based on the construct of the current Islamic-related development index, the construction of an Islamic sustainable development index can be implemented based on the building and formation of an Islamic method.

\section*{Approaches in the Formation of Islamic Knowledge Discipline}

In general, there are two approaches that were adduced by scholars in the building and formation of Islam, namely ‘returning to the original fiqh’ and Islamization approaches.

\subsection*{Returning to the Original Fiqh}

The ‘return to the original fiqh’ approach has not been discussed much by intellectuals, probably due to the limited knowledge needed to apply this approach. According to Ahmad (2017), this approach requires an in-depth understanding of the original sources of knowledge, which are the al-Quran and Sunnah. According to Salleh (2002), ‘returning to the original fiqh’ involves a process known as ‘dismantling the fundamentals’ because this approach uses the fundamentals of knowledge in Islam to form the discipline of modern knowledge. In regard to this, he had adduced the
reconstruction process for the whole discipline of knowledge by focusing on the discipline of Islamic-based development.

According to Salleh (2003), Islamic-based development must be constructed on the fundamentals and the original pillars of Islam. This approach involves the actual understanding of the philosophy of the development stages that include the epistemology and methodology of the discipline of knowledge being studied. Hence, based on this, Salleh (2008) suggested to develop the Islamic research methodology discipline to ensure that the Islamic-based development discipline is formed according to the ‘return to the original fiqh’ approach that is comprehensive and authentic. The use of this approach requires an in-depth study on the thinking framework, value, requirement, presumption and goal based on the source of knowledge. Through these steps, re-structuring of the knowledge discipline—in this context, the development discipline is carried out comprehensively and on a big scale without involving experience or a stand formed from the conventional development discipline.

**Table 1** Construct of Islamic-related development index

<table>
<thead>
<tr>
<th>Index</th>
<th>Primary</th>
<th>Indicator component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics-augmented HDI, E-HDI</td>
<td>Life</td>
<td>Life</td>
</tr>
<tr>
<td></td>
<td>Mind</td>
<td>Education</td>
</tr>
<tr>
<td></td>
<td>Property</td>
<td>Income</td>
</tr>
<tr>
<td></td>
<td>Religion</td>
<td>Faith</td>
</tr>
<tr>
<td></td>
<td>Race</td>
<td>Family and environmental values</td>
</tr>
<tr>
<td>Islamic HDI, I-HDI</td>
<td>Life</td>
<td>Life</td>
</tr>
<tr>
<td></td>
<td>Mind</td>
<td>Science</td>
</tr>
<tr>
<td></td>
<td>Property</td>
<td>Ownership</td>
</tr>
<tr>
<td></td>
<td>Religion</td>
<td>Faith</td>
</tr>
<tr>
<td></td>
<td>Race</td>
<td>Family and social relationships</td>
</tr>
<tr>
<td></td>
<td>*addition</td>
<td>Freedom, Fairness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environment</td>
</tr>
<tr>
<td>Islamicity Index, I^2</td>
<td>Walayah</td>
<td>Economy</td>
</tr>
<tr>
<td></td>
<td>Karamah</td>
<td>Legislation and governance</td>
</tr>
<tr>
<td></td>
<td>Meethaq</td>
<td>Human rights and politics</td>
</tr>
<tr>
<td></td>
<td>Khilafa</td>
<td>International relations</td>
</tr>
<tr>
<td>Malaysia Ummah</td>
<td>Scope</td>
<td>Economy</td>
</tr>
<tr>
<td>development index, MUDI</td>
<td>Perpetrator</td>
<td>Social</td>
</tr>
<tr>
<td></td>
<td>Time scale</td>
<td>Spiritual</td>
</tr>
<tr>
<td></td>
<td>Framework</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Effort</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Source</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Goal</td>
<td></td>
</tr>
</tbody>
</table>
Ahmad (2017) proposed five steps of the ‘return to the original fiqh’ approach, which consist of nucleus, corpus, behavioural analysis, empirical study in addition to the formation of policy and strategy. The stages involved in the process of implementing the ‘return to the original fiqh’ approach. According to Ahmad (2017), the nucleus stage is the most basic stage in this approach. This stage is the first step in collecting the texts of the al-Quran and as-Sunnah related to the aspect being studied. At this stage, the religious decrees regarding the pertinent judgements, values and regulations are gathered. All the information obtained are qat’ie in nature and with a truth that is absolute, fixed and unchanged because the original source is directly from Allah SWT and the Prophet SAW.

This step is then followed by understanding the text process with the aim of applying it in the development discipline. The step involved in the corpus stage requires the ability to understand and interpret texts. Consequently, ijtihad can be formed to determine the judgement and fiqh principles pertaining to the issue involved. However, ijtihad can only be performed on the matters that is not absolute in Syariah. With this ijtihad process, the knowledge on fiqh could expand in the discipline of modern knowledge, which permits the discipline of Islamic-based development to be formed.

Both the nucleus and corpus stages are the phases in fundamental knowledge that forms the Islamic-based philosophy of development. Salleh (2011) emphasised that this philosophy and epistemology is included in the Islamic worldview. Nevertheless, this fundamental knowledge needs to be expanded to a tool so that it could be implemented and not remain as rhetoric. This leads to the next stage, the behavioural analysis. According to Ahmad (2017), forming theories through behavioural analysis perpetrates Islamic-based development. At this stage, human reactions, as an agent of Islamic-based development towards judgements, ethics and procedures in Islam, are examined and analysed.

Next, the behavioural analysis stage is proven through empirical research that studies the phenomenon of life in a society. Evaluation is carried out to enable the behaviour of the agent of development to be modelled. The findings at this stage enabled the hypothesis related to behaviour of the agent of Islamic-based development to be tested. Besides that, the empirical proofing stage also allows the truth and validity of Islamic values and ethics to be proven.

The final product of the four stages is the study on the ‘return to original fiqh’ approach, which eventually allows the formation of policy and strategy related to Islamic-based development. According to Ahmad (2017), the formation of this strategy could help the society to implement a complete Islamic-based development system and eventually lead to a successful development.

**Islamisation**

In comparison to the ‘return to original fiqh’ approach that lacked discussions by academicians, the Islamization approach was frequently the focus. This was because the
former approach was easier to implement. The implementation of the latter approach required an in-depth knowledge about philosophy and developmental analysis, as well as knowledge about fiqh. This approach could ensure that forming the Islamic-based development discipline would materialise although the world generally was dominated by the conventional development discipline for so long. Thus, through Islamization of the conventional development, issue of a static phase in Islamic-based development discipline could be overcome. Then, al-Faruqi believed this approach could revitalise the Islamic knowledge discipline (Wan Sabri, Zuriati, Tasnim, & Ahmad, 2015).

However, there were two forms of Islamization approaches listed by Hassan and Ahmad (2016), which comprised the partial and full Islamisation approaches. Among the two approaches, the full Islamisation approach was closer to the ‘return to original fiqh’ approach compared to the partial Islamisation approach.

The partial Islamisation approach involves the current method for the modification of the conventional model. The modification involves changes either to the facts pertaining to syarak or adding facts with Islamic characteristics. In this method, the original philosophy in the model was not examined or discussed in-depth. Hence, because of this, the original presumptions, norms and hypothesis in this model were still used in the partial Islamisation approach (Hassan & Ahmad, 2016). Changes were only initiated to the real variables in the conventional model for Islamisation of the model (Ahmad, 2017). Elements that were identified as neutral, universal and not contradictory to syarak in the evaluated model were maintained without further discussions. This approach was not comprehensive and not accurate to enable a field of knowledge to be called an Islamic field of knowledge. According to Hassan and Ahmad (2016), the models produced from approaches like this are still based on the conventional paradigm of knowledge and overall, still bound by its philosophy.

A more composed approach compared to the partial Islamisation approach is the comprehensive Islamisation approach or total Islamisation approach, as stated by Hassan and Ahmad (2016). This approach is a method that involves changes to all aspects involved in the discipline of knowledge that is being studied. The aspects involved are the paradigm, core idea, presumptions, norms, ethics, hypothesis and limitations contained in the discipline of knowledge. The discipline of modern knowledge, such as development, will be totally analysed according to the requirements of rudimentary knowledge based on the sources of the al-Quran and as-Sunnah. Although it starts with the discipline of modern knowledge that originated in the West, the development discipline was analysed based on the nucleus and corpus and later substantiated empirically to enable the reconstruction of Islamic-based development process to be implemented. With this approach, the paradigm, objectives, presumptions, norms, ethics and hypothesis for Islamic-based development that uses the comprehensive Islamisation approach was based on Islamic values. Consequently, the model that was formed can be referred to as a model that has gone through a total Islamisation process (Ahmad, 2017).
Reconstruction of the Islamic Sustainable Development Index

It cannot be denied that sustainable development, if compared to other areas in the discipline of development, such as economics and social, are relatively new. However, the commitment of the world led by international organisations, such as the UN and European countries, have made sustainable development an international attention. This is also inclusive for the Muslim-majority countries. Nevertheless, it does not mean that Muslim-majority countries should follow the orientation set by the SDG. Thus, a distinct benchmark is needed to ensure that the success of sustainable development based on Islamic Syariah can be achieved by these Muslim-majority countries.

As discussed earlier, the two approaches adduced by Islamic scholars could be used in the process of reconstruction for the Islamic sustainable development index. The first approach uses the original sources of knowledge in Islam before forming the discipline of modern knowledge. Second, the approach begins with the discipline of modern knowledge based on conventional discipline which goes through the Islamisation process, either partially or totally.

Based on both these approaches, the Islamisation approach is more frequently used to implement the construction of a development index that symbolises Islam. However, the Islamisation method according to Salleh (2011) has several glaring weaknesses. One of them is the attachment to the original conventional framework. In reconstructing the Islamic sustainable development index, the attachment to the original conventional framework can occur when the index is still in the economy—social–environment framework that is processed by the conventional sustainable development discipline. When this occurs, the potential Islamic sustainable development index will be bound by the assumption that occurs in conventional sustainable development, which believes in the existence of limitations to the environment that curtails progress and expansion from economic and social aspects. The assumption is that the economic and social aspects will only be able to expand to the maximum limits or boundary of the environment because the environment held resources for the development process.

The positive side of reconstructing Islamic sustainable development index by using Islamisation process is the ability of this method in revitalising the Islamic knowledge by incorporating modern knowledge with the Islamic principles. Moreover, the process of index reconstruction becomes easier and quicker. However, if the partial Islamisation method is used simplistically, the Islamic sustainable development index would only be mechanistic in form with patches of Islamic elements. The would-be-produced index could possess Islamic economic, social and environment aspects, with clear indications of Islamisation to the original aspect in conventional sustainable development.

Therefore, due to this, it is suggested that the reconstruction of the Islamic sustainable development index uses the ‘return to original fiqh’ method. Although sustainable development is adduced in the conventional framework, it is not impossible...
for the eventual Islamic sustainable development index to be formed according to the initial source of Islamic knowledge, namely the al-Quran and Sunnah. In order to implement this process, the elements on Islamic economics proposed by Salleh (2011) could be a guide. The steps suggested for the reconstruction of Islamic sustainable development index process through the ‘return to original fiqh’ methods are:

i. Defining the Islamic sustainable development concept.
ii. Determine the final objective of Islamic sustainable development.
iii. Operational mechanism for the Islamic sustainable development index.
iv. Evaluation method for the Islamic sustainable development index.

Hence, through these steps, the reconstruction of the Islamic sustainable development index can be systematically initiated using the ‘return to the original fiqh’ method and avoiding the brief and easy partial Islamisation process. This process could also avoid the dependence by the eventual sustainable development index on the conventional development index.

Conclusion

The reconstruction of the Islamic sustainable development index process should occur in a continuous manner, until it achieves the level of use according to the ‘return to the original fiqh’ approach, which involves the ‘dismantling the fundamentals’ process. Hence, an accurate, concise and complete sustainable development index according to the various aspects such as philosophy and operational mechanisms as well as basic knowledge and knowledge tools, could be produced.

Acknowledgements

Sincere appreciation is conveyed to Universiti Sains Malaysia for making the writing of this article a reality. This article is part of a study entitled the ‘Islamic Sustainable Development Index Model’ (203.CISDEV.6711595), funded by the Fundamental Research Grant Scheme (FRGS) under the auspices of the Ministry of Higher Education, Malaysia.

References


Enhancing Strategic CSR for Sustainability Through Moderating Effect of Waqf Orientation: A Solution Through CSR-VBI Canvas

Siti Sara Ibrahim, Abd Halim Mohd Noor, Roshayani Arsyad and Shafinar Ismail

Abstract  Firms are placing more emphasis on sustainability, prompted by increasing pressure to divert focus from profit generation and take more interest in society and the environment. In the case where the goals and intentions of corporate social responsibility (CSR) have been reoriented to fit a paradigm of strategic CSR, companies are receptive to the government initiatives in order to make CSR practices more strategic in nature. The economic and social effects of this can be evaluated by carrying out CSR activities in a context where private firms, the social sector and the government are in collaboration with each other. In this way, social issues can be better tackled through the lens of providing aid or services with sustainable impact. In addition to that, The Central Bank of Malaysia and its Value-Based Intermediation (VBI) approach is a strategic attempt by the government to ensure that there is value in the effects of a company’s social responsibility undertakings, and consequently allowing for this valuable impact to be sustainable for the socio-economic welfare of the community. The present study emphasizes strategic collaboration in the context of VBI methods. This is illustrated through ‘CSR-VBI’ e-canvas, whereby it was developing specifically for the organization to develop its CSR project as well as measure their impact, doing so it promotes the proactive approach of CSR which is crucial to the organization for sustainability goals. Then, in order to reinforce the impact of VBI in the collaborative dynamic, it is posited that waqf orientation should be put in place to fortify the strategic effects from the corporate collaboration, and ensure that these results are consistently perpetuated in a manner, which is beneficial to the socio-economic growth of the company and its surrounding community in the future. In relation to this issue, the current study has conceptualized the role of Waqf Orientation as a moderator in the dynamic between strategic collaboration towards sustainability. This is prompted by the inconsistent meaningful results in research related to strategic performance in a collaboration with the aim of sustainability.
Keywords: Strategic corporate social responsibility · Waqf orientation · Value-based intermediation

Introduction

Many developing nations, including Malaysia, are paying increasing attention to the evolution of corporate social responsibility (CSR) in the interests of socio-economic progress. Nevertheless, traditional applications of social responsibility have declined in the wake of organizations being required to ensure that their CSR practices prioritize the sustainable and strategic resolution of various socio-economic matters. Consequently, CSR can function as a process whereby firms strategically solve societal issues.

Additionally, in response to initiatives by the government, a strategic paper titled ‘Value-Based Intermediation (VBI): Strengthening the Roles and Impact of Islamic Finance’ was released by the Central Bank of Malaysia in July 2017. To begin with, this paper was targeted towards Malaysian Islamic Banking Institutions (IBIs) to enable optimal results in their social influence, through methods carried out strategically so that it brings benefit to the environment, the surrounding community and the firm equally. However, the current study is interested in the implementation of VBI in an industry-wide context which has been integrated to the company’s social responsibility practices. This is in line with the wider goals of ensuring that Malaysian organizations practice strategic applications of CSR. This study focuses on strategic collaboration in CSR, one of the strategies outlined in VBI.

In addition to that issue, it is recommended that the concept of Waqf orientation be incorporated into the framework of strategic collaboration in order to boost its influence and sustainability. Waqf orientation functions as a moderating variable which reinforces the relationship between sustainability and strategic collaboration performance. Among the important attributes of Waqf include inalienability, perpetuity and the condition of being irrevocable. Mohsin and Mohammad (2011), Darus, Shukri, Yusoff, Ramli, Zain and Bakar (2017), Kahf (2003).

As such, the present research has the objective of conceptualizing strategic collaboration and its implementation by organizations in Malaysia in the context of Value-Based Intermediation undertakings, and how Waqf is applied in order to ensure a stronger link between strategic collaboration and sustainability. Finally, all the framework will be illustrated through ‘CSR-VBI’ canvas in which specifically develop for a firm to present its CSR practices holistically and measure the impact of those activities. This may attract the investor to get involved with the CSR project proposed.
Literature Review

Corporate Social Responsibility: Corporate Philanthropy

Jariko, Børsen, Jhatial, Nawaz and Mushtaque (2017) has mentioned that although CSR-based actions have greater impetus among Western nations, developing countries are known to use charity-focused and philanthropic ventures which constitute only a tiny minority of the sphere of CSR. Occasionally, scholars have the propensity to categorize philanthropy as one element within the larger scope of CSR (Feliu & Botero, 2016). Corporate philanthropy (CP) also is pointed out as a regular undertaking among listed firms practising CSR, and that it plays an important economic function in enhancing the ethical obligations and investment of a company towards its stakeholders (Darus et al., 2017).

Liket and Maas (2016) highlighted that philanthropic practices in Malaysia still centre around contributions from the community or religious groups. The global scale of societal issues requires a swift response under the burden of insufficient financial donations, where there are only a small number of parties who attempt to help. These include firms, which incorporate philanthropic activity and philanthropic organizations themselves. There is an effort made to improve philanthropy to ensure its efficiency, accountability to the public and its productivity (Davis, 2016). In other cases, Velasco (1996) mentioned that a strategic financial alliance can be put in place in order to work towards sustainability in the community’s economy while being simultaneously advantageous to the corporation.

Strategic corporate philanthropy illustrates how firms can make contributions voluntarily or through a financial system, whereby any current or forthcoming business ventures are supported while ensuring that the results also bring social value in a form which can be evaluated (Jariko et al., 2017). This brand of philanthropy encourages corporations to invest in social contributions with the potential for rewards, and as such prioritizes spheres, which are tactically important to the firm. When incorporated into the larger scheme of corporate strategy, it aims to achieve the ideal balance between the company’s stakes and the community’s needs. It also pointed out that most corporations have more than sufficient resources, which can be utilized for the best interests of society (La Cour & Kromann, 2011).

Value-Based Intermediation (VBI): Strategic Collaboration

A strategy paper was released by the Central Bank of Malaysia in July 2017, titled ‘Value-Based Intermediation: Strengthening the Roles and Impact of Islamic Finance’. This functions as a guideline for Islamic Banking Institutions (IBIs) in embracing the appropriate practices, management and contributions, which will result in sustainable and beneficial effects to society, the environment and the economy. This is achieved in a manner, whereby the dividends of shareholders are not
jeopardized. Value-Based Intermediation (VBI) is posited as a recent method, but many of the results expected from its execution are similar to those of existing and trusted strategies, including Ethical Finance and Sustainability, Socially Responsible Investment (SRI) and Environmental, Social and Corporate Governance (ESG). However, what differentiates VBI from these methods is that the basis of VBI involves ascertaining priorities, moral codes and establishing an ethical foundation. In this way, VBI is suitable for corporations across various industries in the application of strategic philanthropy methods.

The four processes in executing VBI as pointed out in the strategy paper are as follows; nurturing potential champions, strategic networking, enhanced disclosure and performance measurement. The present study will focus on the improvement of collective well-being through efforts to maintain posterity, faith, lives, wealth and intellect in the process of strategic collaborations among organizations. Preserving of wealth in the practising of VBI means fostering the generation, gathering and distribution of resources in an equitable way. The framework of Waqf orientation used as a moderating variable can be used to expand on this. A case of prior collaboration can be used as an example, namely the Al-Waqf Home Financing-i project to contribute affordable housing, initiated by Bank Islam in alliance with Jabatan Agama Islam Pulau Pinang and a property development firm. Under this initiative, 76 residential and 9 commercial lots were successfully constructed on a 9-acre plot of land in Penang.

In strategically implementing Corporate Philosophy (CP), each participating firm and its stakeholders must be capable of establishing solid networks of strategic collaboration with VBI practices as a yardstick. This is necessary to ensure that a corporate philanthropy (CP) undertaking is able to deliver results which achieve sustainable socio-economic well-being.

**Corporate Sustainability**

‘Sustainability’ as defined in commerce is derived from the term ‘sustainable development’ used in the ‘Triple Bottom Line’ and the Social Sustainability Index (SSI). This hybrid meaning makes up the commonly acknowledged definition of sustainability in the literature for management accounting, whereby any ventures undertaken by firms must ‘meet the needs of the present without compromising the ability for future generations to meet their own needs’ whether they be social, environmental or economic in nature (Soderstrom et al., 2017). While Freeman and Hasnaoui (2011) has also mentioned that the concept of sustainability is positioned within the framework of the triple bottom line of profit, people and planet.

There is a greater expectation that companies take accountability for their impact on society and the environment in addition to profits and performance. Corporate Social Responsibility (CSR) functions as a method to ensure sustainability and foster shared priorities and values between the company and community. Elkington (1998) highlights this as a momentous change in the focus of business strategy, but the
accounting field has also developed the concept of ‘triple bottom line accounting’, which takes a practical view of sustainability. Corporate sustainability has grown to be more prominent and relevant in organizational theory as well as practice. A precise definition of corporate sustainability and clear steps to attain it still remain insufficient, but academics have posited that an organizational culture structured around sustainability can best lead to the adoption of sustainability in the corporation itself (Linnenluecke & Griffiths, 2010).

As such, it can be said that sustainability is the interest in the effects of a company’s current choices and how these will impact the environment, communities and related networks in the future. These issues should be incorporated into the strategic planning stages for sustainable organizations. The chosen strategies should be implemented with a long-term perspective and a more comprehensive scope of priorities related to employees, customers, the environment and ethical actions (Ameer & Othman, 2012).

**Waqf Orientation as Moderator to Sustainability; a Proposed Framework**

The Arabic word ‘Waqafa’, which carries the meaning of being long lasting and holding still, is the origin of the term Waqf. In simple terms, Waqf is the conversion of personal assets into public assets. Waqf was practised during the age of Prophet Muhammad (PBUH), and became established in the eighth century (Khalid, 2015; Feliu & Botero, 2016).

Waqf includes several important elements including the declaration of intention and the existence of contributors, beneficiaries and the properties involved. The prominent identifying characteristics of Waqf are perpetuity, the condition of being irrevocable and inalienability (Mohsin & Mohammad, 2011; Darus et al., 2017; Kahf, 2003). Any cash or assets offered as Waqf is no longer the property of the person or group who is the contributor. Waqf is considered the sole property of Allah (SWT) and thus not permitted to be sold, given as inheritance, or to have its ownership transferred to another individual. There exist certain exceptions, such as in the case of land which can be sold provided there is another equivalent piece of land in exchange, a process which falls under Istibdal law. Additionally, Mohsin and Mohammad (2011) also highlighted the condition of perpetuity in relation to cash Waqf does not apply to the money in its physical form, but rather to its tangible impacts or benefit. In this way, the properties can be safeguarded for the Islamic community and its best interests (Kahf, 2003).

Waqf is also an important instrument in the context of the Islamic economy due to its function in enhancing and progressing the sociopolitical well-being of the ummah. Sadeq (2002) stated that any property deemed as Waqf cannot change ownership, cannot be discarded, and is a voluntary charitable giving which can only be utilized
for very particular intention. These conditions reflect the attributes of Waqf, which are perpetuity, inalienability and the state of being irrevocable.

The importance of maintaining the practice of Waqf globally is highlighted, due to its great benefit and significance to global Muslim communities. While standard charity organizations can offer quick and short-term aid, Waqf-based orientation also intends to ensure a constant stream of sustainable impact and advantages, in perpetuity. In this way, Waqf has the capacity to identify factors leading to societal issues and manage them in a sustainable manner. The priority of Waqf is in bringing a transformative impact upon people’s lives and the Muslim ummah as a whole, in both religious and secular perspectives, reflecting a holistic approach to community well-being (Muhammad, 2016). Attaining sustainability through Waqf requires a genuine comprehension of the concept and system of Waqf. The current study thus views perpetuity, inalienability and irrevocability as the foundation to assess a meaningful relationship with sustainability.

In the framework of correlational analysis, the third variable which impacts the correlation between the first two variables is known as a moderator. Baron and Kenny (1986) explain that moderators can be qualitative (gender, social class), quantitative or in a more general form, and they impact the orientation or intensity of the connection between the independent and dependent variables. As such, the present study intends to ascertain the consistent impact of Waqf orientation upon sustainability. The results will indicate whether or not the construct of Waqf orientation qualifies as a moderating variable in the dynamic between strategic collaboration and sustainability, in a manner, which conforms to the definitions laid out by Baron and Kenny (1986).

Methodology

The connection between sustainability and organizational performance is predicted to be non-linear in nature. When a chance exists for a company to improve its performance through the adoption of sustainable practices, it does not stand to reason that the firm should aim for ultimate sustainability. Scholars have posited that the element of collaboration within strategic performance management was more likely to be productive in the effort to reach.

Results and Discussions

In addition to the previous analysis of LR matrix’s, the present study undertakes VBI framework in which it focuses on the strategic collaboration between members in order to ensure the CSR project may success and sustained. Figure 1 uses the example of an earlier VBI project in order to illustrate the specifics of how elements of Waqf orientation can be integrated into the programme, thus ensuring that resources are
used sustainably. This can aid the administration of future VBI programmes and establish outcomes which are advantageous to the firm itself and to society.

Finally, a study proposed ‘CSR-VBI’ canvas in order to present the companies social responsibilities activity holistically, so that it can be measured the implementation performance as well as the impact. Figure 2 shows a sample of the proposed

---

Fig. 1  Proposed framework of the integration of Waqf Orientation as moderator in VBI operational context

Fig. 2  Proposed ‘CSR-VBI’ canvas using Waqf orientation as moderator for sustainability
<table>
<thead>
<tr>
<th>Author</th>
<th>Relationship</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beske-Janssen, Johnson and Schaltegger (2015)</td>
<td>Inconsistence</td>
<td>Impacts on the firm’s economic performance are varied</td>
</tr>
<tr>
<td>Touboulic and Walker (2015)</td>
<td>Negative</td>
<td>This study confirms that collaboration can evolve with time, and that there exists a constantly shifting relationship in strategic collaboration for sustainability</td>
</tr>
<tr>
<td>Kuhl, Da Cunha, Maçaneiro and Cunha (2016)</td>
<td>Positive With Low Intensity</td>
<td>Primary findings tally with existing literature, in that there exists a meaningful positive relationship between sustainable performance and collaboration, but at a level of low intensity</td>
</tr>
<tr>
<td>Niesten, Jolink, de Sousa Jabbour, Chappin and Lozano (2017)</td>
<td>Positive</td>
<td>This research states that collaboration is a favoured method of administration in handling organizations within the context of sustainability</td>
</tr>
<tr>
<td>Wagner (2005)</td>
<td>Negative</td>
<td>There exists a negative relationship between economic and environmental performance, while no significant connection is found in terms of inputs-based index</td>
</tr>
<tr>
<td>Akpotu (2016)</td>
<td>Positive</td>
<td>This study reached the conclusion that operational sustainability is guaranteed through strategic collaboration</td>
</tr>
<tr>
<td>Vaidyanathan (2008)</td>
<td>Negative</td>
<td>Sustainability is not possible until and unless philanthropic practices are in alignment with the firm’s basic capabilities</td>
</tr>
<tr>
<td>Moyeen (2018)</td>
<td>Negative</td>
<td>Efforts towards worldwide sustainability are still insufficient, particularly in developing nations. There is also an inadequate understanding of the efficiency of strategies in achieving sustainable growth globally</td>
</tr>
<tr>
<td>Ameer and Othman (2012)</td>
<td>Positive</td>
<td>The sample study reveals that sustainable organizations have improved and maintained financial performance. As such, this supports the hypothesis that firm which is better at adopting and practising sustainability will have stronger growth and financial performance compared to a firm which does not place importance on sustainable operations</td>
</tr>
<tr>
<td>Hummel and Schlick (2016)</td>
<td>Inconsistence</td>
<td>There is an ambiguous relationship between sustainability disclosure and sustainability performance, and this is true in the practical and theoretical sense. Despite this, empirical evidence suggests that both concepts are not incompatible, but more complementary or similar than expected</td>
</tr>
</tbody>
</table>
canvas template to be used by the companies or even the NGOs in presenting its integrated CSR and VBI project in which it has been strengthening though Waqf orientation as a moderating factor.

Conclusion

Judging by the comparison in Table 1, the current study strongly recommends that Waqf orientation be utilized as a mediator in strengthening the link between sustainability and strategic performance in collaboration. The elements of Waqf, namely the state of being irrevocable (ownership cannot be transferred), inalienability (cannot be sold or purchased) and perpetuity (continuous and permanent) ensure that Waqf orientation is appropriate to regulate capital management in a way, which is sustainable and mutually beneficial to the firm, community and environment.

In addition to that, a value proposition by the proposed development of ‘CSR-VBI’ canvas through the integration of CSR and VBI framework of study highlighted the unique model of companies’ social responsibility practices to become more strategic for the effect of sustainable development of firm as well as human well-being.

Acknowledgement This paper is funded by FRGS grant code; 600-IRMI/FRGS 5/3 (37/2016), between UiTM and Ministry of Higher Education (MOHE).

References


Muhammad, I. N. (2016). *Waqf based philanthropy: A definition and obstacles to Waqf knowledge acquisition in North-Western Nigeria*.


Challenges for Sustainable Islamic Microfinance Institutions in Malaysia

Md. Faruk Abdullah, Zelhuda Shamsuddin and Suraya Mahmood

Abstract This paper aims at investigating the operation of Islamic microfinance in Malaysia, analyses the challenges for their sustainability and the possible solutions. Among the notable institutions offering Islamic microfinance in Malaysia are Amanah Ikhtiyar Malaysia (AIM), Yayasan Usaha Maju (YUM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). Banking institutions and development financial institutions are also a major provider of financing to small- and medium-size enterprises in Malaysia. It was found out that most of the microfinance institutions in Malaysia depend on a single Islamic mode of financing, which is qard hasan and charge a fee for the service provided. A variety of Islamic modes of financing are suggested to overcome this issue. Moreover, Islamic microfinance institutions do not offer any other significant services other than the loans and there is no integration of zakat and waqf with the microfinance operation. On the other hand, commonly the risk management tools, training and marketing strategies have some shortcomings which might be a threat for their sustainability. Furthermore, the dominance of mainstream banking institutions and development financial institutions in providing microfinance may not always be right as they have some limitations. Similarly, operating under the government might not be a positive approach for the microfinance institutions concerning their efficiency and political influence.

Keywords Islamic microfinance · Microfinance institutions · Malaysia · Sustainability · Challenges

Introduction

Microfinance has emerged as a significant device for raising the efficiency of impoverished people and enhancing economic development (El-Komi & Croson, 2012). It is defined as a set of banking practices that, in general, concentrate on distributing
tiny loans without collateral and receiving small savings deposits (Armendariz & Morduch, 2005). Microfinance is a kind of financial institution whose main duty is providing small loans to people who did not have access to such financial services in the past (Khavul et al., 2013).

However, the conventional practice of microfinance involves interest. Islamic law strongly prohibits any involvement with interest. A significant number of Muslim customers state that they do not approach conventional microfinance for religious reasons (Sharawy, 2000; Rahman, 2010; El-Komi & Croson, 2012). Therefore, Islamic microfinance was established. Islamic microfinance means a particular type of microfinance, which complies with the principles of Islamic law. It is being practiced through the development of Islamic banking and finance. Islamic microfinance is constructed with the philosophy of profit and loss sharing. In Islamic Microfinance Institutions (MFIs), the clients enter into a contract or a number of contracts with the MFIs in order to avoid interest and other Shariah prohibitions (Haque & Yamao, 2011; Smolo & Ismail, 2011).

In Malaysia, Shariah-compliant microfinance started in the 1980s. However, its overall development is still limited (Saad, 2012). Therefore, it is significant to enhance the Islamic microfinance operation in the country. It is also equally important to make the existing Islamic microfinancing in Malaysia sustainable given the fact that it realizes a noble objective of eradicating poverty and developing the living standards of the impoverished people (Manan & Shafiai, 2015). However, it is learnt that MFIs in Malaysia mostly rely on government funding which might be a barrier for them to be sustainable (Mokhtar, Nartea, & Gan, 2012). Some studies argue that Shariah-based mode of financing practiced by Malaysia’s Islamic MFIs are questionable (Saad, 2012; Hassan et al., 2013). This may be a threat for the survival of Islamic MFIs in the country.

Therefore, it is crucial to examine the current practices of Islamic MFIs in Malaysia, the challenges related to the sustainability of these institutions and the possible ways to overcome those challenges. This paper discusses the overall operation of Islamic microfinance in Malaysia first. It then analyses the challenges related to sustainability of Islamic microfinance operation in Malaysia along with the recommendations to overcome those challenges.

**Islamic Microfinance in Malaysia**

Malaysia started microfinance in 1987 with the establishment of Amanah Ikhtiyar Malaysia (AIM). A non-government organization was established basically following the model of Grameen Bank (GB) in Bangladesh. Yayasan Usaha Maju (YUM) was another microfinance institution established in Malaysia based on GB’s model at the same period. Lately, Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) was another significant microfinance institution (MFI) in Malaysia, which was established in 1998. While AIM is a non-government organization, then YUM and TEKUN are
government organizations placed under the Ministry of Agriculture and Agro-based industry (Mokhtar et al., 2012).

**Amanah Ikhtiyar Malaysia (AIM)**

AIM is currently the leading microfinance institution in Malaysia and the largest GB’s replication outside of Bangladesh. It was established under the Trustee Incorporation Act 258. It focuses on providing loans to the poor only making it the poverty-oriented MFI in Malaysia. AIM was initiated through a pilot project made by two Universiti Sains Malaysia’s social scientists, namely David Gibbons and Sukor Kasim. The pilot project was named as ‘project ikhtiyar’. The success of ‘project ikhtiyar’ proved that it was possible in Malaysia to establish a collateral-free group-based lending method. Consequently, AIM started to offer its services widely in Malaysia (Muridan & Ibrahim, 2016; Mokhtar et al., 2012; Amanah Ikhtiar Malaysia, 2018; Omar, 2010).

AIM generally provides three types of loans, which are (1) loan for economic purposes; (2) non-economic purposes; and (3) loan for recovery. Loan for economic purposes is designed to help the poor and low-income earners in the cities. The loan is provided to set up small businesses, which should increase their incomes and standard of livings. The amount of loan is between 2,000 and 20,00 MYR, which should be repaid in 12–150 weeks based on the amount of loan. Loan offered for non-economic purposes include mostly educational loans and some other social needs. The non-economic loan is offered between MYR 5000 and MYR 10,000, which is paid back in 50–100 weeks based on the loan amount. The third type of loan, which is termed as recovery loan is offered to the members who encountered a project failure due to illness or natural calamities. The amount offered is a minimum of MYR 1,000 to a maximum of MYR 5,000. The period for repayment is between 12 and 50 weeks based on the amount loaned (Muridan & Ibrahim, 2016; Mokhtar et al., 2012).

Apart from the above, AIM also offers loans to assist its members who face difficulties in their lives due to accidents, chronic disease, death of the family member, destruction of house/project due to natural disasters and others. AIM has established a welfare and well-being fund to cater the needs of its members. This welfare fund works as a micro-insurance for the members during adverse situations. It provides some financial assistance to the members in case of death of the family member, hospitalization due to serious illness or accidents and destruction of houses due to natural disasters or fire. Moreover, it provides some assistance to elderly people who are out of any insurance coverage (Mokhtar et al., 2012).

Even though AIM is following GB, but it does not charge interest on its members. This is to satisfy the requirement of the Shariah, which prohibits Interest-based transactions. Instead of interest, AIM charges 10 per cent management fees on top of the amount loaned for all categories of loans. One-week grace period is given to the borrowers after the amount is disbursed. Like GB, the loan is given after the members have made a group. The group members are required to save between MYR...
From establishment, AIM showed a steady development making it the largest MFI in Malaysia. In 2018, it has 134 branches around the country. The number of its borrowers currently exceeds 380,000. The total amount of loan disbursed up to 2018 is MYR 19,439,030,761. The repayment rate is quite satisfactory which is 98.08 per cent (Amanah Ikhtiar Malaysia, 2018; Muridan and Ibrahim, 2016).

Yayasan Usaha Maju (YUM)

Another notable MFI in Malaysia established following the GB’s model is Yayasan Usaha Maju (YUM). YUM operates in Sabah, the second largest state in Malaysia, which is part of the Borneo island. Sabah is one of the poorest states in Malaysia with different types of ethnic groups. The poverty level of Sabah is three times higher than the average poverty level of Malaysia (Mokhtar et al., 2012).

Before being registered as a foundation under the trustee (incorporation) ordinance 1951, YUM started its journey with a pilot project called ‘project usaha maju’. When the project was proven successful in alleviating poverty, the government of Sabah transformed the project into the formal YUM in 1995. Working under the Ministry of Agriculture and Agro-based industry, YUM fulfils the government’s mission to alleviate poverty through proving loans to the poor and hardcore poor (Muridan & Ibrahim, 2016; Mokhtar et al., 2012).

Both AIM and YUM follow the same method for lending operations. However, YUM does not practice the group-based lending method. This is because members stay far apart even though they are in a same village. Therefore, peer monitoring would not work properly as it is quite difficult for them to meet each other frequently. YUM offers two types of loans, which are (1) general loan and (2) short-term loan (Mokhtar et al., 2012).

The general loan is given for different types of businesses and farming activities such as vegetable cultivation, fruit farming, cattle farming, fishery, grocery shops, food stalls, vegetable vendors, hair saloon, tailoring, craftsmanship and others. The size of the loan given is between MYR 500 and MYR 20,000, whereas those are in the hardcore poverty level get MYR 10,000 as the maximum amount. The loans should be paid back in between 50 and 250 weeks according to the size of the loan. A 2-weeks grace period is given to the borrowers after they have received their loans. There is no interest charged from the borrowers, but they should pay a management fee of 10% of the loan amount which can be paid in every 50 weeks. The borrowers are required to save two per cent of the loan amount with YUM (Mokhtar et al., 2012).

The short-term loan is basically offered to the hawkers with the intention to make them free from relying on the loan sharks. The size of the loan is between MYR 100 and MYR 5000. The loan is paid back in 50 weeks with three instalments per week. YUM charges no interest but a management fee of 18 per cent. The borrowers are
given 1-week grace period after the reception of the loan. Until 2018, YUM has disbursed more than MYR 426 million to its borrowers (Mokhtar et al., 2012; Yayasan Usaha Maju, 2018).

Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)

Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), the third notable microfinance institution in Malaysia was established in 1998 under the Ministry of Agriculture and Agro-based industry. It is currently under the Ministry of Entrepreneurial and Cooperative Development. Its operation is different from the previous two MFIs as it provides loans to not only the poor but also to those who live just above the poverty level. It targets mainly the Bumiputra and Indian entrepreneurs. Along with providing loans, it provides business opportunities and trainings to improve the business skills of the borrowers. TEKUN’s services are expanded in both Peninsular and East Malaysia, and their branches are established based on the parliamentary divisions (TEKUN Nasional, 2018; Mokhtar et al., 2012).

TEKUN offers six types of loans to the customers while the size of the loan is between MYR 5,00 and 50,000. Its financing includes different types of businesses, i.e. manufacturing, retailing, services, farming, animal husbandry, fishery, tourism, transportation, etc. The loan is offered to both male and female micro-entrepreneurs. The minimum age to get the loan is 18 years and the maximum age is 65 years. Unlike the abovementioned MFIs, TEKUN allows the borrowers to repay their loans on weekly, monthly and semi-annual basis based on the nature of the business and subject to the decision of the management (Mokhtar, et al., 2012).

TEKUN charges a small amount of management fee, which is 4% of the borrowed amount. However, it encourages the borrowers to save 5% of the annual repayment. Among the three MFIs, TEKUN’s repayment rate is the poorest. In 2009, TEKUN reported 15% non-performing loans which is MYR 225 million accumulated since their inception. The high rate of non-performing loan has severely affected the institutions’ capital and the ability to disburse new loans (Mokhtar et al., 2012).

Banking Institutions and Development Financial Institutions

Along with the MFIs, banking institutions play a significant role in Malaysian microfinance industry. Banking institutions are even the key provider of financing to the micro, small and medium enterprises in the country. With the initiative from Bank Negara Malaysia, the Central Bank of Malaysia, the banking institutions have increased their attention to provide loans to small enterprises through establishing a unit particularly to handle micro, small and medium enterprises. In 2011, 88% of total financing outstanding to small and medium businesses were provided by the banking
institutions. In 2015, there were six commercial banks in Malaysia actively involved with microfinancing which were Alliance Bank, AmBank, CIMB Bank, Hong Leong Islamic Bank, Public Bank and United Overseas Bank. Other than the commercial banks, there were some development financial institutions involved in microfinancing for a specific sector, i.e. agriculture, infrastructure development, maritime, etc. Some examples of development financial institutions are Bank Simpanan Nasional, Bank Pertanian Malaysia Berhad (Agro Bank), Bank Kerjasama Rakyat Malaysia Berhad and Export–Import Bank of Malaysia Berhad (EXIM Bank) (Muridan & Ibrahim, 2016).

Challenges for the Sustainability of Islamic MFIs in Malaysia

Having known the general operation of major Islamic MFIs in Malaysia, it is pertinent to discuss the challenges for MFIs in Malaysia which may affect their sustainability. This section analysed a few challenges based on the operation of MFIs discussed above and recommended some solutions. According to the researchers’ view, there are eight challenges for the sustainability of Islamic MFIs in Malaysia, which are: (1) reliance on a single Islamic mode of financing; (2) Lack of other types of services; (3) lack of funds from waqf and zakat; (4) limited risk management tools; (5) inadequate training for the members; (6) limitation in marketing and targeting the borrower; (7) dominance of mainstream banking institutions; and (8) funded and managed by the government.

Reliance on a Single Islamic Mode of Financing

It is observed that Malaysian MFIs basically rely on a single Islamic mode of financing which is qard hasan (interest-free loan) but they charge a management fee (ujrah). A few studies have raised questions on whether it is a Shariah-approved practice (Saad, 2012; Hassan et al., 2013). The rate is charged in proportion to the amount borrowed but not based on the management cost. Therefore, one may argue that there is a similarity between this practice and the riba-based loan. This practice may deter the Muslim clients from approaching MFIs.

In order to be more sustainable, MFIs in Malaysia need to diversify their products based on different Shariah concepts. Several Shariah-based products can be offered to the clients according to the nature of their businesses and needs. Murabahah and bay muajjal are two viable Islamic financing contracts that can be used instead of service charge. According to Obaidullah (2008), ‘As a micro-credit product, bai muajjal-murabaha is a very popular, and perhaps the most popular product among Islamic Microfinance Institutions (IMFI)’.

Bay’ murabahah is a cost plus agreed profit sale. It is a contract between a buyer and a seller under which the seller purchases a commodity, and sells it to the buyer.
with an agreed profit between them. The profit can be determined by the proportion of the commodity price, or as a lump sum. The payment can be made either in cash, or instalments, or at a fixed future date (Goddard, 2011). Usually, bay’ murabahah consists of two parties, one is the seller and the other is the buyer. The seller is like an ordinary trader, who purchases the goods from the market, and then sells them to the buyer at a cost plus the agreed profit. In fact, bay’ murabahah is a contract of trust in which the seller’s honesty is essential. Moreover, the first sale contract should be on the spot but not on credit. The second sale contract can be on a deferred price (Al-Sharkhasi, 2001).

Second, bay’ muajjal is a contract between the bank and the client in which the bank sells the commodity to the client with a fixed agreed price, and the client pays the price at a certain future date, in sum or fixed instalments. This is a credit sale. Here, the ownership of the goods is transferred to the client at present, but the payment is made in future, either in a lump sum or fixed instalments. The client can make an order to the bank, and can identify the features of the commodity (Alam, 2008).

Although bay’ muajjal appears to resemble bay’ murabahah on order and promise, there is a difference between the two. Bay’ murabahah is a cost plus agreed profit sale. Meaning to say, in bay’ murabahah, the bank reveals the cost of the commodity, and the price of the commodity is decided by both of the parties with the cost price plus the proportion of profit. On the other hand, in bay’ muajjal, the bank does not reveal the cost of the goods and the proportion of profit.

Both bay’ murabahah and muajjal are different from the service charge as there is an underlying asset in these transactions. The MFI is not providing cash to the customer but it is selling an asset to the customer. The asset should be used by the customer to run his business or other income-generating sources. This may be termed as a credit in kind which is proven to be more effective. Some studies reveal that many clients of MFIs default to repay their loans because they spend the money provided for other non-economic purposes. Therefore, credit in kind should be more effective (Parveen, 2009; Abdullah et al., 2017).

Along with bay’ murabahah and muajjal, some other Islamic modes of financing can be offered to fulfil the customer’s needs and the nature of the business. One of the examples is mudarabah mode. A mudarabah contract is based on the principles of sharing profit and loss where one party provides capital and another party provides labour for business or investment. The profit is distributed between them based on a predetermined ratio. In the case of a loss, the capital provider bears the loss and the promoter loses his labour. The MFI may provide capital to the clients to do small business. The profit will be distributed between the MFI and the client according to the predetermined ratio (Goddard, 2011; Alam, 2008).

Furthermore, musharakah mutanaqisah can be an important financing instrument. This is a contract in which the MFI and the client initially enter into joint ownership of a property, or equipment, or any commercial enterprise. Subsequently, the client hires that property from the MFI. The MFI promises to the client that after a certain period of time the client can be the sole owner of the property by paying the price of the property in sum or instalments (Osmani and Abdullah, 2010). Under musharakah mutanaqisah, the MFI may provide a house to the needy people. The clients will pay
the rental of the house, and, gradually, buy the MFI’s share. In addition, musharakah mutanaqisah can be practiced through providing agricultural instruments for the farmers.

Finally, salam financing is a notable financing option for the farmers. Salam is a deferred delivery contract through which the buyer pays the full price in advance for goods that will be delivered at a specified future date. Farmers usually use this contract to raise money before the harvest for agricultural goods that will be delivered later (Goddard, 2011; Alam, 2008). Salam financing might be very efficient and helpful for the poor farmers as they need money to start farming.

Although MFIs would be encountering higher risks with the practice of above-mentioned mode of financing, but the risks can be managed through proper risk mitigation techniques. With the implementation of these modes of financing, MFIs would be able to fulfil various needs of the customers. Consequently, product diversity would provide MFIs more sustainability in a competitive environment.

Lack of Other Types of Services

It is observed that MFIs in Malaysia mostly provide loans to the clients. They do not provide any other services. Only AIM provides some kinds of insurance benefits but it is not sufficient. It may be considered under welfare activities but not a micro-insurance product. However, MFIs can provide micro-insurance and savings services. It is a matter of concern that the laws governing the financial activities in Malaysia do not allow any institution other than banks to accept deposits from people. Therefore, it is not allowed for the MFIs to accept deposit from the clients. Therefore, the laws should be changed by providing an exception for MFIs. Similarly, MFIs should be allowed to offer micro-insurance services to the clients. This would enrich the MFIs to perform welfare for the people and it may help reducing the number of defaults.

Among the three MFIs, only TEKUN is offering ar-rahnu service to its clients. Therefore, more MFIs should provide ar-rahnu services to the clients. Ar-rahnu is a credit service provided to a person with a personal asset kept as collateral. Ar-rahnu provides a person fast credit to fulfil any emergency need. At the same time, MFI institutions may secure their loans with taking personal items like jewelleries as collateral. Moreover, profits can be earned through taking some fee for safe-keeping of the asset (Rasmin & Markom, 2014).

Lack of Funds from Waqf and Zakat

There is no integration of waqf and zakat with MFIs in the current practice. In Malaysia, both waqf and zakat are managed by the religious affairs authorities. However, integrating waqf and zakat would enhance the distribution of these charities
and at the same time would improve the performance of MFIs. A formal collaboration between MFIs and religious affairs authorities are required for this process.

Malaysian MFIs may adopt Bangladesh Rural Advancement Committee (BRAC)’s ultra-poor graduation model where the people living at the extreme level of poverty are found out and then gradually develop their financial status (Mokhtar & Ashhari, 2015). In this mechanism, the MFI would provide support to the hardcore poor through zakat and waqf funding. After that they would be provided financing to conduct businesses or farming.

Alpay and Haneef (2015) suggested a unique model of integrating waqf to micro-financing in reference to the Muslim countries. They proposed that waqf can be used to diminish the cost of capital for MFIs. With this integrated model, an MFI would offer project financing, takaful coverage and human resource development services. At first, the MFI would invest in human resource development programmes to develop potential entrepreneurs. After that, the MFI would make project financing with the entrepreneurs which would consequently eradicate poverty. In case there is a project failure or calamities faced by the entrepreneurs, it would be covered by the Takaful service.

In another approach, money from waqf and zakat can be directly used to provide financing to the poor instead of just giving them donation. Especially, cash waqf can be a very important mechanism to improve the financial situation of the poor. In this mechanism, financing should be given to the poor to conduct businesses based mudarabah. The profit and loss from the businesses would be shared between the client and the waqf fund. This process would make MFIs more sustainable through getting more funds for the clients. At the same time, the waqf fund would be perpetual as one portion of the profit would be returned back to the fund. Moreover, when the client’s financial status reaches to a stable stage then he can return back the capital provided from the waqf fund. Furthermore, instruments used for farming, i.e. tractor, harrow, farm truck can be purchased through using the funds from waqf and can be lent to the poor farmers. The farmers will use the instruments for free to cultivate their lands and then they should return it the MFI after their use so that other farmers can borrow them again. Besides, if there is an agricultural land given as waqf, the land can be given to an able-bodied poor to cultivate. Once the person has got out of poverty then he should return it to the MFI so that another poor individual can be benefited after him.

**Limited Risk Management Tools**

The risk management strategies need to be improved through implementing more intensive peer pressure and supervision. Some of the MFIs in Malaysia, i.e. YUM did not use group-based lending altogether due to the fact that the members stay far from each other. However, due to the advancement of technology and social media, it is easier for the members to communicate with each other. The management may rethink on this matter. Moreover, instead of targeting the individuals as the borrowers,
MFIs may target the family as a borrower so that both husband and wife would be responsible to pay back the loan.

Moreover, the risk of default can be mitigated through proper monitoring. The loan officers should make frequent visit to the borrower’s business sites to investigate the business situation. Moreover, the branch manager and area manager should work as another level of monitor to mitigate the risk of default. Furthermore, timely research should be done to predict whether any economic condition may affect the repayment status of the borrowers.

Finally, Islamic teachings should be inculcated among the borrowers. This is because Islamic teachings may contribute to reduce moral hazard problem on the client’s side. According to Manan and Shafiai (2015), moral hazard issue from the customer’s side is one of the key causes of loan defaults. According to Islamic teaching, it is a grave sin for a person when he does not pay back his loan while he has the capacity. The prophet (peace be upon him) did not attend the funeral prayer of his companion whose debt was not settled. Debt is a right of human being which may not be forgiven by Allah SWT if the creditor does not forgive the borrower (Bensaïd et al., 2013).

Inadequate Training for the Members

Muridan and Ibrahim (2016) revealed that a significant number of borrowers have never joined any course on business management even though they have been provided the facility. Consequently, the borrowers lack comprehending the importance of continuous progress in the business. Furthermore, when any business management course is organised, only a few selected borrowers can attend the course. The courses are conducted occasionally and there are no scheduled training sessions around the year. The training location most of the time are in the cities, which makes it difficult for the rural borrowers to attend those trainings. Apart from that, MFIs do not have in-house trainers to conduct the trainings. It might be difficult for the outside trainers to understand the audience.

Therefore, it is suggested that MFIs should have their in-house trainers who understand the needs and situations of micro-entrepreneurs. Moreover, the training programmes should be scheduled throughout the year so that borrowers can join them at any time of the year. It is suggested that the borrowers should undergo several training programmes before getting the loans based on the nature of his business. GB in Bangladesh requires its members to go through a number of training programmes before disbursing the loans. Moreover, it would be more effective if the senior members of the MFIs become the trainers for the newcomers. This would create a platform to share knowledge and experience. In the context of Islamic finance, it is more important to conduct training programmes to have an understanding on Islamic mode of financing. Islamic Shariah requires that a businessman should learn the related Shariah principles before embarking on his business.
The training should be provided for the improvement of necessary business skills and specialized skills for a particular business. MFIs may conduct research to find out the causes of project failures and may include teaching the strategies to overcome them in the training sessions. Moreover, Shariah principles for conducting businesses should be taught. Finally, training should improve the overall financial literacy of the members. It is known that better financial literacy contributes to a better financial decision and household well-being.

**Limitation in Marketing and Targeting the Borrower**

It is observed from the discussion earlier that it is not a prevalent practice in Malaysia that MFIs go to their prospective customers’ door to market their products. However, GB has been extensively practicing this strategy of bringing the bank to the client. Before opening a new branch, GB’s officers would go to the doors of the prospective customers. They market GB’s products and services. After that, the clients deposit a small amount of money with GB. The next day, GB starts to provide loans to its clients. This mechanism made GB a totally sustainable microfinance organization. GB now opens its new branches from the money deposited from its customers without taking any funding from the headquarter (Abdullah et al., 2017). However, this mechanism is not prevalent in Malaysian MFIs. Above all, the customers approach the MFIs. This makes the Malaysian MFIs reaching only a limited number of customers.

**Dominance of Mainstream Banking Institutions**

Mainstream banking institutions are one of the key financiers for micro, small and medium enterprises in Malaysia. However, there are some constrains for the mainstream banking institutions. First, it cannot provide loans to hardcore poor as they provide loans only to small- and medium-size enterprises. According to Muridan and Ibrahim (2016), most of the banks prefer the medium-sized enterprises over small business. Therefore, loans given to small businesses are very limited. Moreover, the banks cannot work as MFIs in terms of targeting the borrowers. While MFIs can go door to door to market their products, then banks only serve those who approach the banks. Even though the banks provide loans without collateral but the group-based lending does not function here. Hence, mitigating the risk of default through peer pressure is not applicable here. Furthermore, many small businesses do not get loans due to inadequate documents. The bank requires some financial documents in order to disburse the loans. However, some micro-entrepreneurs find difficulty to meet these requirements. Finally, the mainstream-bank’s objective of getting profit may contribute to charge higher profit from the customers and consequently may overlook the microfinance objective of alleviating poverty.
Funded and Managed by the Government

Other than AIM, both YUM and TEKUN are financed and managed by the government. Being under the government may hamper the performance of the MFIs. Reliance on the government funding may lead the MFIs overlooking the maximum efficiency of their loans and the returns from the loan. Furthermore, it would create pressure on the government’s expenditure. Apart from that, a sudden budget cut by the government due to the change in fiscal policy may affect the operation of MFIs. Additionally, Duflos and Imboden (2004) mention that it has been known from the past experience that when the government is involved in retail financing, then it has a negative consequence in most of the time.

On the other hand, while under the government, MFIs may not be free from political influences. This may distract the very fundamental object of MFIs in Malaysia which is to alleviate poverty. Mokhtar et al., (2012) reported that during 1990s, MFIs in Malaysia were diverted from their objectives of alleviating poverty due to fulfilling political agenda. Therefore, MFIs should operate freely and should not rely totally on the government for funding. It should be allowed to formulate policies and execute them freely to achieve the ultimate objective of poverty alleviation. In relation to this, we may refer to GB as one of the most successful MFIs in the world as completely a private organization, which mostly relies on its clients to run its finances.

Conclusion

This paper discussed the major Islamic microfinance operation in Malaysia, which includes three Islamic MFIs which are AIM, YUM and TEKUN. It also included the microfinance operation of banks and development institutions. AIM is the first Islamic MFI in Malaysia, which currently has the highest number of borrowers is non-government organization. On the other hand, both YUM and TEKUM are under the umbrella of the government. All the three MFIs offer different types of financing schemes including loans for short to long term. However, all of them use only qard hasan (loan) contract with a service charge. While AIM and TEKUM adopt GB’s group-based lending method then YUM cannot implement it due to the geographical stand of the borrowers. AIM and YUN offer repayment of the loans on weekly basis but TEKUM offers different time frames for the repayment according to the type of project.

The study analysed eight challenges for Islamic MFIs in order for them to be sustainable in Malaysia. First, relying on a single mode of Islamic contract might be a threat to the industry. The paper suggests a number of Islamic modes of financing, i.e. murabahah, muajjal, mudarabah and musharakah for their operations. Furthermore, Islamic MFIs in Malaysia do not offer any other notable services to their members. Therefore, savings and takaful coverage are recommended. Besides, Islamic MFIs are not integrated with waqf and zakat. Therefore, it is suggested that waqf and zakat
can be two important sources of funding for MFIs and they may contribute to achieve social welfare of the people and better achieve the objectives of MFIs.

Moreover, the risk management tools are limited as some of the MFIs are not practicing group-based lending and strong monitoring system like GB. This study emphasizes on the enhancement of training through Islamic teachings, which may contribute to reducing the default risks. In relation to this, the existing training mechanism has some shortcomings due to the location of the training, schedule and the trainers. It is suggested that MFIs should have scheduled training sessions throughout the year with in-house peer trainers. In terms of marketing, it can be enhanced through following the GB’s model of approaching the customers at their doors and encouraging deposits to improve the source of financing.

Regarding the microfinance practice by the banking institutions and the development institutions, it can be said that it is not always positive as banking institutions cannot fulfil the fundamental objectives of Islamic MFIs due to their operational limitations. Finally, being funded and managed by the government may not be right for the MFIs in the long run as it may reduce their efficiency and make them vulnerable to political influence.

References


Part III
Values
Exploring the Islamic Value-Based Entrepreneurship in Malaysia

Muhamad Saufi Che Rusuli, Rosmaini Tasmin, Noraani Mustapha and Suhaila Abdul Kadir

Abstract This paper attempts to draw the attention of researchers about Islamic Entrepreneurship, a dimension out of focus for at least two decades. Extensive work on literature search found that there is scarcity evidence on intellectual and scholastic research done on Islamic Entrepreneurship. Albeit this study never claims as the most comprehensive work in this area, at least it fills the vacuum of two decades with the latest coverage on Islamic Entrepreneurship process and values without merely targeted on monetary profit. Working along that line, this study offers a discussion on the importance of Islamic Entrepreneurship based on the Islamic Value-Based Entrepreneurship (IVBE) model. This study reviews on several models of Islamic business perspective, Islamic civilization and entrepreneurship, individual ethics, and modern day of Quadruple Helix Innovation approach. Hence, this needs more study if we are to address the question of “Have we learned enough about Islamic entrepreneurial values?” and “Is there any model approach can be adapted?”

Keyword Entrepreneurs · Islamic entrepreneurship · Entrepreneurship · Behavior
Introduction

In this century, the challenge faced by Muslims is to restore the golden age of civilization that they had built over 10 centuries ago. A new dimension of Islamic entrepreneurship should be developed, introduced and realized again. Successful Muslim entrepreneurs have provided an alternative approach, which enables them to regain their glory. This is because the model and source of Islamic civilization and Islamic entrepreneurship itself already lies in the hands of Muslims. Thaib and Pa (2014) noted that researchers frequently introduce business models and modeling based merely on economic gain. Therefore, to restore the glory of Islam, it is necessary that entrepreneurship through the development of entrepreneurial activities are structured and organized to ensure success and act as a strong defense to deal with the environmental threat. Furthermore, Muslim entrepreneurs, for instance, must learn how to be leaders and lead that will also be instructive for others. But can they prove it? If there is an insight in asking the question, in debating it, then there is a value (Harrison & Roomi, 2018).

As we know, every Muslim involved in business around the world should understand the restrictions of halal (permitted) and haram, and should be practiced in their business activities (Azmi, Musa, Sihombing, & Fen, 2018; Sahad, Abdullah, Abdullah, & Abdullah, 2018). In the Malaysian business climate, corporate sectors are booming due to various factors, especially economic, financial policies, and political stability. Malaysia has learnt some lessons from the Japanese experience in the development of small- and medium-sized industries (SMIs). Al-Harran (1995) argued that for the country to be fully industrialized, SMIs have to be well managed, efficient, and competitive in the global market. It is not the abundance of money that makes SMIs successful and competitive in the global market, but rather the management of funds, and real challenges faced by the entrepreneurs in the new global economic order. Kayed (2006) stated that the main challenge for Islamic entrepreneurs to remain competitive in the natural setting is how the Islamic entrepreneurship model could be transformed and translated into working policies and enabling institutions? Furthermore, how Islamic business ethics could be operationalized in the context of the contemporary business environment in order to harvest the benefits of Islamic entrepreneurship? Kayed further emphasized that these basic questions brought about inevitable question of whether or not the behavior and the performance of Islamic entrepreneurship can be or should be judged in the absence of a true “Islamic state where the realm of socioeconomic human behavior is engineered according to Islam”.

Literature Review

Since the announcement made by Johor Corporation (JCorp) CEO, Tan Sri Dato’ (Hashim 2010) noted that “… the key concept of Islamic entrepreneurship gets its footing in the concept of Corporate Waqaf. Waqaf, in the Islamic law, is a permanent
endowment or trust, customarily of real estate, in which the proceeds are spent for purposes designated by the benefactor usually on charitable foundations such as schools, hospitals and mosques (Alam, Bhuiyan, & Alam, 2017; Hoque, Ali, Arefeen, Mowla, & Mamun, 2018). Corporate Waqafs are legally recognized as community-owned corporations that continue in perpetuity, and profits from Waqafs are used only for reinvestment or to fund community interests in charitable or social causes. He believes that to be such a Muslim entrepreneur, one must also be worthy of being entrusted with *amanah* another key concept that means a transaction in which one party manages another’s funds or property in trust. The term *amanah* may also describe other financial activities, such as taking deposits’.

Hence, Islam endorses entrepreneurship regardless of its being opportunity or necessity driven as long as it stands on moral and ethical grounds and conforms to the Islamic code of conduct. Hassan and Kayed (2010) stated that stimulating entrepreneurship in Western societies nowadays is mainly driven by the prospect of material rewards. Islam has nothing against Muslims seeking profit through the creation of, or the engagement in, business ventures. The only condition is that Muslim must believe must be preserved that every business operated is a kind of *ibadah* intended first for the sake of The Almighty Allah. Accordingly, business activities are meant to strengthen the Muslims’ faith (*Iman*) by committing them to the remembrance of Allah and attending to His religious duties. “*By men whom neither traffic nor merchandise can divert from the remembrance of Allah, nor from regular prayer, nor from the practice of regular charity*” (Qur’an, 24, 37). This situation can be attained using a portion practice of Islamic Entrepreneurship Model (IEM) illustrated by Jan and Nawawi (2009) (Fig. 1).

Yusof (2010) stated that implementation of the entrepreneurship agenda should be consistent with the principles of entrepreneurship, philosophy, and approach to Islam itself. Entrepreneurial venture which is owned by Muslim entrepreneurs should be able to project the image of Islam as perfect and complete. The implementation must be as a midpoint of Tauhid to Allah and also consistent with the need of Quran and Hadith (Beekun & Abd, 1998; Yusof, 2010). Figure 2 shows the relationship between civilization and entrepreneurship in Islam.

**Fig. 1** Islamic entrepreneurship model

![Islamic Entrepreneurship Model](image-url)
Moreover, entrepreneurship in Islam is a situation whereby the Muslim entrepreneurs extend help to their Muslim brothers and participate in the development of the Muslim nation. Thus, this principle goes beyond satisfying his/her immediate needs and personal interest. In the entrepreneurial activity, there are factors, which influence ethical behavior in Islam. These factors have been identified in Fig. 3 (Beekun & Abd, 1998; Karim, 2007).

**Fig. 2** Relationship between civilization and entrepreneurship

**Fig. 3** Determinants of individual ethics
Method

The current study is carried out as a desk study to review the existing theoretical models. There are several comparisons of theoretical models that have been highlighted. This approach merges a perception and desk study evaluations with the society about the possibility of proposing Islamic Value-Based Entrepreneurship so-called IVBE to the society in this study.

Results and Discussions

QH as a model of innovation reflects in many ways and there are several common features common to new thinking in the innovation process and innovation policy (Arnkil et al., 2010; Parveen, Senin, & Umar, 2015). Parveen et al. (2015) explained that QH added to another helix and actor group to the Triple Helix (TH) innovation model. As far as this study is a concern, the Islamic Value-Based Quintuple Helix Entrepreneurship Model (IVBE) can adapt the QH approach to help Islamic organizations (i.e., SMEs) in completing the cycle of satisfying customers. Parveen et al. (2015) said that it is more useful and meaningful to consider QH as a continuum or space rather than a single entity. Furthermore, it is beneficial to talk about different QH models situated somewhere along the QH continuum or space. This study considers QH mainly comes from the innovation perspective, especially innovation related to the development of products and services either in private or public sector (Parveen et al., 2015). This is to state that all products in IVBE from now on need to have an innovation thinking to attract customers to purchase effectively. The QH approach is illustrated in Fig. 4.

The QH indicates the importance of citizens (i.e., consumer/customer) in the innovation chain product. Islam encourages innovation and halal method to be used and shared among its follower customers. Halal products are guaranteed by the Islamic law as being more safety and being healthy. Together, Curley (2015) urged that government, industry, university, and citizens working together to cocreate the future and drive structural changes far beyond the scope of any organization or person could do alone. Therefore, we can say goodbye to the word of “Competition” and say goodbye to the word of “Competition” and say

Fig. 4 Quadruple Helix model → Islamic value-based quintuple Helix entrepreneurship model (Arnkil et al., 2010; Curley, 2015; Curley & Salmelin, 2013; Parveen et al., 2015)
“Welcome” to the word of collaboration. This is a need in IVBE to collaborate with strong entrepreneurial organizations in order for them to keep on optimal growth. The established organizations need to contribute their ideas and innovations of products and services in order to support the Small Medium Enterprises (SME) companies to maintain their business. For example, in Ireland, Intel Labs Europe is working together with a leading electrical heating company Glen Dimplex, the National Grid, Utilities, and homeowners. This is to co-innovate a new electrical energy operating model which will optimally take advantage of renewable energies, new technologies and maximize efficiencies, while lowering costs for all involved (Curley, 2015). In the eye of Islamic perspective, these interactions among university, community, industry and the government have to be laid sincerely for the sake of ibadah that reflects a sign of thanking Allah for his Blessings. Hence, this paper proposes for Islamic Value-Based Quintuple Helix Entrepreneurship Model in which all interactions and transactions between four QHs must be within the boundary of Allah’s Blessings and Pleasure to attain his long-lasting reward for sustainability of Muslim entrepreneurs and Islamic businesses.

Conclusion

Innovation itself is changing faster than a speeding bullet train and a new innovation paradigm is emerging arising from the collision of three megatrends, increasing digitalization driven by the increasing power of IT, mass collaboration and sustainability. A crucial issue that must be accounted for in the process of constructing any developmental model is to ensure compatibility and integration between its various elements which are most notably its cultural and institutional components. Regardless of how entrepreneurial Islamic culture is translated and operated, it still needs an accommodating environment and supporting institutions in order for it to demonstrate its will. This study hopes that through the enhanced of QH (Quintuple Helix) approach, the IVBE can move forward in innovative ways.

References


The Awareness of Wasiyyah (Will Writing) Practice Among Muslims

Hasmah Laili Jamalurus, Siti Fairus Mokhtar and Hasni Abd Rahim

Abstract  Asset redistribution is one of the areas that is very important in Islamic financial planning. The objective of the asset redistribution is to ensure the smooth transition or transfer of the asset of the deceased to the beneficiaries. Among the methods that can be adopted in asset redistribution by Muslim is through wasiyyah (Islamic will). In Malaysia, it is reported RM42 billion of assets that need to be distributed to 500,000 beneficiaries has been frozen due to the absence of legitimate wills. It shows that the awareness toward asset redistribution by Malaysians, especially, Muslims toward wasiyyah practice is still very low. Therefore, the purpose of this study is to investigate the factors influencing the awareness of Muslims toward wasiyyah practice. A survey via questionnaire is carried out with the target samples of 81 respondents residing in Kedah. The study will examine the relationships between awareness of wasiyyah practice with independent variables such as knowledge, life events, and institutional factors. The data is analyzed using binomial logistic regression. Based on the findings, it shows that the most influential factor that influence the awareness of wasiyyah practice is knowledge. Hence, the more their knowledge, the higher the level of awareness of them toward wasiyyah practice.

Keywords  Asset redistribution · Wasiyyah · Islamic will · Islamic financial planning

H. L. Jamalurus · H. A. Rahim
Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah, Campus of Sungai Petani, Kedah, Malaysia
e-mail: hasmahlaili@kedah.uitm.edu.my

H. A. Rahim
e-mail: hasniar@kedah.uitm.edu.my

S. F. Mokhtar (✉)
Faculty of Computer Science and Mathematical Sciences, Universiti Teknologi MARA Cawangan Kedah, Campus of Sungai Petani, Kedah, Malaysia
e-mail: fairus706@kedah.uitm.edu.my

© Springer Nature Singapore Pte Ltd. 2019

hajarsalwa@gmail.com
Introduction

Estate planning is one of the areas that is very important in Islamic financial planning. The objective of the estate planning is to ensure the smooth transition or transfer of the asset of the deceased to the beneficiaries, and also to avoid disputes among the family members. As mentioned in Surah Al-Baqarah, verse 180; “It is prescribed, when death approaches any of you, if he leave any goods that he make a bequest to parents and next of kin, according to reasonable usage; this is due from God-fearing”. The verse indicates that how important the practice of bequest or estate planning is to the Muslim.

Several methods can be applied to distribute one wealth after he/she passed away such as implementation of faraid (Islamic law of Inheritance), wasiyyah (will writing), hibah (gift), whereby it will help to increase the total distribution of estate among Muslims. Faraid is that section of the Islamic inheritance law that deals with the distribution of the estate of a deceased person among his heirs in accordance with Allah’s decree in the Holy Quran and according to the hadith or tradition of the Messenger of Allah. Hibah is another alternative in Islamic estate planning structure; complementing faraid and wasiyyat (will writing). As we know, Islamic inheritance law or faraid outlines the distribution of assets of the deceased to those who have a blood relationship with the deceased. Therefore, hibah will help in solving the issue of distributing the assets to some heirs who are not entitled to receive the assets under the faraid.

Another method that can be adopted in estate planning by Muslim is through wasiyyah (Islamic will). Wasiyyah is a legal document that outlines how one’s estate is to be distributed in the event of affairs after death, and also the possible appointment of a trusted guardian for an underage of maturity (18 years) is reached. Writing a wasiyyah or will is to stipulate the direction and distribution of the estate to the relevant beneficiaries.

In Malaysia, it is reported RM42 billion of assets that need to be distributed to 500,000 beneficiaries has been frozen due to the absence of legitimate wills. It is also estimated that only 10% of the Malaysian practice a will writing from the total population (The Star, 2013). However, the figure of unclaimed assets by Muslims was increased to RM60 billion in 2016 as mentioned by Azizan Baharuddin (BH Online, 2016). The increasing figure clearly shows that the awareness toward asset redistribution by Malaysians, especially, Muslims toward wasiyyah practice is still very low.

Based on the above statements, this paper will identify the factors that influence the awareness of wasiyyah practice among Muslim. This paper is divided into five sections. The first section is to discuss briefly the concept of Islamic estate planning emphasizes on wasiyyah practice. Section two discusses on methodology and data collection used in this study. Findings and discussion are in the third section. Finally, the last section is the conclusion and recommendation.
Literature Review

A. Awareness of Wasiyyah Practice.

The term “awareness” can be defined as knowledge or understanding of a subject, issue, or situation (Macmillan Dictionary, 2018). In most previous literature, it shows that the majority of Muslims are familiar with the terminology of wasiyyah. However, they were lacking in term of knowledge and understanding about the practice of wasiyyah (Ahmad & Peyman, 2008).

Islamic estate planning is almost totally neglected by Malaysian Muslims. They do not view estate planning seriously, while some are skeptical about making a wasiyyah and in general, the awareness of practising wasiyyah is not encouraging. In average, only 5% and 10% of Malaysian adopt or practice the estate planning through will writing (mStar, 2014).

According to Abdul Aziz Peru Mohamed, CEO of as-Salihin Trustee Bhd, the issue of RM60 billions of unclaimed assets in 2016 is due to lack of awareness of the importance of estate planning and ignorance in the asset distribution procedures (The Edge Financial Daily, 2016).

B. Knowledge on Wasiyyah Practice

Knowledge is among the main factors, which influence the awareness of wasiyyah practice. A study by Ghul, Yahya and Abdulllah (2015) found that the respondents who were knowledgeable about wasiyyah were more aware on the importance of the practice. The finding was consistent with the study conducted by Ahmad and Pyeman (2008) and Jumadin, Johar, Hashim, and Mohamad (2013), which prove that knowledge is a factor which influences the awareness or wasiyyah practice. In the study by Dahan and Ahmad (2012), it revealed the possession of will by Muslim respondents were very low. This was due to lack of understanding and knowledge about the concept of wasiyyah. According to Al-Ma’amun (2012), the respondents who were more knowledgeable about Islamic estate planning were more likely to have made wasiyyah.

C. Life Events

The term life event is also known as life cycle. According to McKay and Kempson (2003), life events can be associated with a series of life events that are likely to be associated with changes in savings behavior such as having children, getting married, or losing a job. The concept of life event is also relevant in life insurance. One of the reasons to have life insurance is to create inheritance to the heirs if the policyholder dies. Hence, the life cycle or events such as “death” also relevant for wasiyyah. Mahdzan and Victorian (2013) conducted a study on determinants of life insurance demand where life cycle motive is chosen to be one of the aspects for savings motive. The findings show that life cycle has a positive relationship with demand for life insurance.

In the study by Ghul et al. (2015), the result indicated the independent variable of life events has no meaningful relationship with wasiyyah adoption. This means the

hajarsalwa@gmail.com
factor of life events will not affect the awareness of respondents toward wasiyyah purpose.

D. Institutional Factors

Many people viewed the process and regulations pertaining to claiming of estates is difficult. This is because there are so many procedures and involvement of several institutions in the distribution of estate (Afiqah et al., 2011). The process involves several authorities or institutions, which may take several years to settle. Thus, the complexity of the procedures may confuse the heirs or beneficiaries and affect their decision to claim the estate.

Based on the study by Ahmad and Pyeman (2008), institutional has a significant relationship with knowledge of wasiyyah. The findings from the study indicated that even though most of the respondents have a knowledge about wasiyyah, they do not know the respective institutions that involve in preparing and managing wasiyyah matters. Therefore, it is the responsibility of the respective institutions to disseminate the information to the public in order to increase their awareness and knowledge about wasiyyah.

Alma’amun (2012) also studied on how institutional factors influence wasiyyah practice based on two questions; “the knowledge on the existence of the institutions” and “cost of making a wasiyyah”. The result shows the question of the “knowledge on the existence of the institutions” was a significant determinant factor affecting wasiyyah practice rather than “cost of making a wasiyyah”.

Conversely, findings from the study by Ghul et al. (2015) revealed that institutional factors has an insignificant relationship with wasiyyah adoption. The result from analysis denotes that the institutional factors will not influence the respondent’s decision in accepting the practice of wasiyyah.

Methodology

This research is considered as an exploratory study on factors influencing the awareness of wasiyyah practice among Muslims, especially in Kedah.

A. Sampling Method

This study employed a non-probability sampling method, whereby data was collected on a sample of 81 Muslim respondents from several districts in Kedah. The convenience sampling method was chosen as it is affordable, easy and the subjects are readily available (Etiken et al., 2016). However, their specific criteria for the selection of respondents are as follows: (1) respondents must be Muslim, (2) respondents must be 18 years old, and (3) respondents are working either with government or private sectors. Approximately, 120 questionnaires was distributed and only 90 questionnaires (response rate of 75%) were returned and 81 were deemed usable.
The Awareness of Wasiyyah (Will Writing) Practice Among Muslims

Fig. 1  Factors influencing awareness of Muslims on wasiyyah practice

B. Instrument

The instrument used was a self-administered questionnaire consisting of three sections. Section A gathers information about respondents’ background such as age, gender, marital status, monthly income, health status, number of dependants, and estimated value of total assets. Section B includes questions regarding the awareness and understanding of wasiyyah by respondents. Section C was based on 5-Likert scale items, which emphasize on three determinants or factors that influence awareness of Muslims on wasiyyah practice, for instance, knowledge, life events, and institutional factors.

C. Research Framework

Based on the literature review, this study postulates knowledge, life events, and institutional factors, which influence the awareness of Muslims on a wasiyyah practice. The research framework is shown in Fig. 1:

D. Hypotheses

The hypotheses to be tested in this study are as follows:

Hypothesis 1
H1: There is significant relationship between the knowledge on wasiyyah and the awareness of wasiyyah practice.

Hypothesis 2
H2: There is significant relationship between the life events and the awareness of wasiyyah practice.

Hypothesis 3
H3: There is significant relationship between the institutional factors and the awareness of wasiyyah practice.
Findings and Discussion

A. Descriptive Analysis

Demographic Profile of Respondents
Based on Table 1, it shows that from a total of 81 respondents, 65.4% were female while the other 34.6% were male respondents. In terms of age, 13.6% were between 18 and 25 years old, 48.1% of the respondents were between 26 and 40 years old, 35.8% were between 41 and 56 years old, and only 2.5% were respondents aged above 57 years old. Out of 81 respondents, 22.2% were single, 74.1% were married, and 3.7% were widow.

Table 1 Socio-demographic profile of respondents

<table>
<thead>
<tr>
<th>Categories</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>28</td>
<td>34.6</td>
</tr>
<tr>
<td>Female</td>
<td>53</td>
<td>65.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18–25 years</td>
<td>11</td>
<td>13.6</td>
</tr>
<tr>
<td>26–40 years</td>
<td>39</td>
<td>48.1</td>
</tr>
<tr>
<td>41–56 years</td>
<td>29</td>
<td>35.8</td>
</tr>
<tr>
<td>57 years and above</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td><strong>Marital status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>18</td>
<td>22.2</td>
</tr>
<tr>
<td>Married</td>
<td>60</td>
<td>74.1</td>
</tr>
<tr>
<td>Widow</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td><strong>Education level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PMR/SPM/STPM/LCE/MCE</td>
<td>14</td>
<td>17.3</td>
</tr>
<tr>
<td>Diploma</td>
<td>13</td>
<td>16.0</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>16</td>
<td>19.8</td>
</tr>
<tr>
<td>Master</td>
<td>36</td>
<td>44.4</td>
</tr>
<tr>
<td>PhD (Doctorate)</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td><strong>Monthly income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RM1,000 and below</td>
<td>6</td>
<td>7.4</td>
</tr>
<tr>
<td>RM1,001–RM2,999</td>
<td>22</td>
<td>27.2</td>
</tr>
<tr>
<td>RM3,000–RM4,999</td>
<td>17</td>
<td>21.0</td>
</tr>
<tr>
<td>RM5,000 and above</td>
<td>36</td>
<td>44.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td><strong>Practice of wasiyyah</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>11</td>
<td>13.6</td>
</tr>
<tr>
<td>No</td>
<td>70</td>
<td>86.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81</td>
<td>100</td>
</tr>
</tbody>
</table>
For educational level, respondents are made up of 17.3% (Secondary educated), 16% (Diploma), 19.8% (Bachelor’s degree), 44.4% (Master’s), and 2.5% (Ph.D.). Majority of respondents earned monthly income of RM5,000 and above (44.4%), 27.2% earned RM1,001–RM2,999, 21% earned RM3,000–4,999, and 7.4% earned RM1,000 and below.

The respondents were also asked on whether they already made a wasiyyah. From their response, only 13.6% have made the wasiyyah and the other 86.4% have not made a wasiyyah.

**B. Binomial Logistic Regression**

For this study, binomial logistic regression or binary logistic regression is applied to find out the factors influencing the awareness of respondents toward wasiyyah practice. The binomial logistic regression is used because the dependent variable used in the study consists of dichotomous (e.g., yes/no, pass/fail, live/die, vote for A or B).

For dependent variable, the item chosen for awareness on wasiyyah practice is from the question of “Do you know the concept of wasiyyah?” The respondents need to answer the question either “yes” or “no”. The result can be seen in Table 2.

From the result in Table 2, it shows that 85.2% answered “yes” and the rest of 14.8% answered they do not know about the wasiyyah concept.

Referring to classification table in Table 3, it shows that the model correctly predicts 68 respondents out of 69 respondents have the awareness of wasiyyah and 2 respondents out of 10 respondents do not aware about the practice of wasiyyah.

| Table 2 | Awareness on the concept of wasiyyah |
| --- | --- | --- |
| Categories | Frequency | % |
| “Do you know about wasiyyah?” | | |
| Yes | 69 | 85.2 |
| No | 12 | 14.8 |
| **Total** | **81** | **100** |

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Classification table</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observed</td>
<td>Predicted</td>
</tr>
<tr>
<td>Awareness of wasiyyah?</td>
<td>Percentage correct</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>68</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
</tr>
<tr>
<td><strong>Overall percentage</strong></td>
<td></td>
</tr>
</tbody>
</table>

A. Constant is included in the model

B. The cut value is 0.500
Table 4  Chi-square goodness of fit test

<table>
<thead>
<tr>
<th></th>
<th>Chi-square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step</td>
<td>10.823</td>
<td>3</td>
<td>0.013</td>
</tr>
<tr>
<td>Block</td>
<td>10.823</td>
<td>3</td>
<td>0.013</td>
</tr>
<tr>
<td>Model</td>
<td>10.823</td>
<td>3</td>
<td>0.013</td>
</tr>
</tbody>
</table>

Table 5  Model summary

<table>
<thead>
<tr>
<th>−2 Log likelihood</th>
<th>Cox &amp; Snell R²</th>
<th>Nagelkerke R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>64.916</td>
<td>0.055</td>
<td>0.099</td>
</tr>
</tbody>
</table>

Table 6  Variables in equation

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>S.E</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td>2.937</td>
<td>1.136</td>
<td>6.692</td>
<td>1</td>
<td>0.010</td>
<td>18.867</td>
</tr>
<tr>
<td>Life Events</td>
<td>0.268</td>
<td>0.206</td>
<td>1.702</td>
<td>1</td>
<td>0.192</td>
<td>1.308</td>
</tr>
<tr>
<td>Institutional</td>
<td>−0.105</td>
<td>0.589</td>
<td>0.032</td>
<td>1</td>
<td>0.859</td>
<td>0.900</td>
</tr>
<tr>
<td>Constant</td>
<td>−10.531</td>
<td>3.893</td>
<td>7.316</td>
<td>1</td>
<td>0.007</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table 4 shows the result of Omnibus Test of Model Coefficients. It is also known as chi-square goodness of fit test. The result indicated that the model is statistically significant as the all p-values are 0.013, which is less than 0.05.

In binomial logistic regression, the R square (R²) can be used to identify the significance of the overall model. Usually, the value is between 0 and 1. In Table 5, it shows that Cox & Snell R² and Nagelkerke R² has small values of 0.55% and 0.99%, respectively. That means that the model has a low explanation of power and other independent variables should be considered in this study.

Table 6 shows the only independent variables that have the significant influence toward the awareness of wasiyyah practice was Knowledge with the p-value of 0.010 which is less than 0.05.

Conclusion and Recommendation

The purpose of this study is to identify the factors that influence the awareness of wasiyyah practice among Muslims in Kedah. There are three factors that being studied which is Knowledge, Life Events and Institutional factors. Based on the results, it is proven that KNOWLEDGE is the most influential factors toward wasiyyah practice. Therefore, the hypothesis 1 is supported. The finding was consistent with the study conducted by Ghul et al. (2015) and Ahmad and Pyeman (2008). Furthermore, the value of unclaimed assets reported in newspapers and magazines keep increasing year by year. Nonetheless, two independent variables or factors which were LIFE
EVENTS and INSTITUTIONAL did not influence the respondents in their decision to practice or adopt the *wasiyyah* concept. Therefore, hypothesis 2 and 3 is not supported in this study.

In conclusion, it is very important to ensure the Muslim community to have a knowledge and understanding about *wasiyyah*. The more their knowledge, the higher the level of awareness of them toward *wasiyyah* practice. For recommendation, it is advisable to extend the studies on larger samples and over a longer period of study. It will give accurate results or findings for the researcher, relevant institutions, or even the policy maker. In addition, for the future research, it is suggested to study on other independent variables or factors such as religiosity, cultural values, and wealth management.

**Acknowledgements**  This research is benefitted from the funding of the DANA KECEMERLANGAN 01/2016, UiTM Cawangan Kedah (Factors Influencing Awareness of Wasiyyah (Islamic Will) Practice Among Muslims) (600-UitmKDH(PJI. 5/4/14/16).

**References**


Impulse Buying Behaviour from Islamic Perspective: A Conceptual Paper

Siti Hajar Salwa Ahmad Musadik and Ilhaamie Abdul Ghani Azmi

Abstract There is a growing stream of research on impulse buying behaviour, which is most likely conducted from retail purchasing context and was revealed that there are varieties of factors contributing to this behaviour. Generally, previous studies on impulse buying had focused on the factor that stimulates and influence the consumer to practice impulsive buying, which result in the variety of factors in the scope of the situational factor and individual factor. However, there is scarce conceptual and theoretical knowledge in marketing studies discussing the impulse buying behaviour from religious perspective. Therefore, the purpose of this conceptual paper is to review the perspective of Islamic religious towards the concept of impulse buying behaviour. It is essential to explore impulse buying behaviour from a different angle of view as this behaviour is normally conducted by all the consumers in this world. Therefore, a wide discussion of impulse buying behaviour from an Islamic perspective obviously will make some Muslim consumers understand how Islam treats this impulsive buying behaviour. In addition, this study surely contributes some additional knowledge towards a body of knowledge.

Keywords Impulse buying behaviour · Islamic consumption · Wasatiyah · Consumer behaviour

Introduction

In Malaysia, consumer expenditure growth sustained at 6.1% in 2016 compared to 6% in 2015. Although the increment is moderate at 0.1% only, but the spending of emoluments was high and influenced the growth of Malaysia’s economy and spending pattern. One of the main factors that influences this is the incentives given...
by the government, for instance; employment growth, wage increment, increase in the minimum wage, the rise of household disposable income, the reduction of an employee’s EPF contribution from 11% to 8%, a higher amount of Bantuan Rakyat 1 Malaysia (BR1M) payout and the special tax relief for the 2015 assessment year (Central Bank of Malaysia, 2016). In addition, the credit card remained the highest extensively used payment card in 2016 which contributed 77% of the total transaction amount (Bank Negara Malaysia, 2016), which implies that Malaysian consumers attaching themselves with the credit payment service is increasing. For instance, a survey by the Asian Institute of Finance (AIF) found that 47% of the Gen-Y engaged in credit card borrowing where 70% tends to pay the minimum monthly payment (Madden, 2015). This young group utilizes the credit card payment service for their expenditures such as booking hotel accommodations, buying airline tickets, groceries and also products of fashion such as handbeg (Vijaindren, 2017). While a survey by United Overseas Bank Limited (UOB) Malaysia on the spending pattern of Generation Y found that online spending growth was at 38% in the first 6 months in 2016 with the Gen-Y spending 1.4 times more than other age groups. The Malaysian Gen-Y tends to spend beyond what they can afford and frequently indulges in impulse buying behaviours, as well as, engaged in credit card and personal loans where they obviously find themselves in a debt trap (Ismitz Matthew, 2017). Accordingly, it is a likelihood that the growth of consumer income, easy access to credit, new product developments, tempting sale promotions and online shopping that resulted to the increase the spending pattern which, in turn, is expected to influence impulse buying behaviour.

**Consumer Decision-Making**

Impulse buying behaviour is referred to as one of the types of consumer decision-making practicing during buying activities. The consumer decision-making style has been interpreted by Sproles and Kendall (1986) as ‘a mental orientation characterizing a consumer’s approaches to making choices’. It is a normal consumer personality that consists of cognitive and effective characteristics. There are eight basic characteristics of consumers’ decision-making, namely; high-quality consciousness or perfectionism, brand consciousness, novelty fashion consciousness, recreational or hedonistic shopping consciousness, price and value for money shopping consciousness, impulsiveness, confusion from over choice, as well as habitual and brand loyal orientation towards consumption. These eight basic Consumer Style Inventory (CSI) represent a consumer’s approach towards choosing in buying activities (Sproles and Kendall, 1986) and are categorized into three orientations, namely utilitarian, social/conspicuous and undesirable orientation (Shim, 1996).

For the first characteristic, high-quality consciousness and perfectionist consumers refer to the group of consumers who tend to shop more carefully. They are more likely to make a prior systematic and comprehensive observation and com-
parison towards the goods or services that they want to buy. They are not impressed with goods that are just good enough but prefer the perfect, high quality and the best ones. This type of consumers’ decision-making is quite difficult to handle as some of them will dismiss impulsive buying. These consumers are categorized as utilitarian orientation consumers as price and quality are their priority (Shim, 1996). The second characteristic of consumer decision-making is identified as a brand conscious decision maker. This group of consumers are fanatic towards branded, well-known, exclusive and expensive things. They prefer to spend only on popular and branded goods or services and they believe that better quality comes from expensive price. This type of buying decision-making consumers will make decisions wisely only for branded and expensive goods. Next, consumers tend to make decisions through trying something new in the market. They are interested with new products that are rarely used by others and keep hunting for them. These novelty fashion consciousness consumers are excited to possess new products in the market. They tend to keep up with new styles and being stylish, elegant and cool are essential to them. On the other hand, there are some consumers who make the buying decision according to their feelings. This group of consumers tend to shop according to recreational and hedonistic shopping consciousness. They are concerned about enjoyable feeling such as fun, excitement and entertaining. This group of consumers will buy anything as long as they feel enjoyment and pleased. Basically, this group of consumers will make a buying decision according to the recreational and hedonistic feeling. Meanwhile, for the price conscious and value for money characteristic, this group of consumers prefer to make a buying decision based on the best price offered and they are also known as comparison shoppers. They will make an effective investigation and observation for the best price. Basically, this group easily makes a decision to buy during sales promotion and getting the best value for their money is their concern. In addition, Shim (1996) through his study that is related to adolescent consumer decision-making is classified into these four styles of consumer decision-making as social orientation consumers who seek popular and branded items and shop for recreation only. On the other hand, the group of impulsive decision style tends to make a buying decision spontaneously. They are unconcerned about what types of things they spend on and how much they spend. These impulsive buying decision-making consumers basically experience financial problems such as debt and social relationship problems (Rook, 1987). The second last characteristic refers to the group of consumers who make decisions by being confused through over choice. This group of consumers experience a hard time to make a buying decision as they are confused with the many brands and stores that they need to choose from and this group is identified as undesirable consumers who make poor decision-making because of impulsiveness and confusion (Shim, 1996). They are also known as product and retail-oriented consumers (Rezaei, 2015). For the last characteristic, habitual and brand loyal consumer orientation refers to the group of consumers who make a buying decision only for their favourite brands and stores. This type of buying decision-making is a well-known consumer decision-making, which is called the general characteristic of buying decision-making.
Impulse Buying Behaviour

Impulse buying is often driven by ambitious marketing campaigns to influence consumer behaviour. Likewise, the presence and adoption of new and innovative technologies in commercial and retail business help to create a diverse range of shopping channels that attract consumers to use given their availability and convenience (i.e. Amazon, Lazada, Shopee). This behaviour is normal and occurs to anyone intentionally or unintentionally. In the United States, according to a survey by Princeton Survey Research Associates International for Credit Card.com, three out of four Americans have made an impulsive purchase when they feel excited, sad, bored, intoxicated as well as in a bad mood. Men tend to make impulsive buying when intoxicated and women tend to buy impulsively when they are sad (Merzer, 2014). Meanwhile, in Malaysia, a study by the Asian Institute of Finance (AIF) indicate that impulse buying behaviour was one of the main causes of debt woes among the Gen-Y group (Asian Institute of Finance, 2015).

The definition of impulsive buying behaviour by researchers and academics varies, especially within the marketing sector or domain where the term and meaning invariably changes. Research into impulse buying began in the early 1950s resulting from the advent of the retail industry. During this period, Du Pont conducted a series of studies on impulse buying behaviour, notably, Consumer Buying Habits Studies (1948–1965) sponsored by the Point of Purchase Advertising Institute. The studies concluded that impulse buying behaviour is defined as unplanned buying and these studies further created an impulse buying behaviour model that was used for much of the earlier research (Rook, 1987). Subsequently, numerous studies examined the influence and regularity of customer impulse buying behaviour in various forms including; sales patterns (Clover, 1950), food and cosmetics (West, 1951), as well as the consumer types and buying patterns (Applebaum, 1951). Further, extensive studies were undertaken by researchers such as Stern (1962) on impulse buying behaviour to understand further the different types of buying and the different range of products that could be classified into two distinct categories; impulse and non-impulse products. Usually, within the context of marketing, impulse buying does not explicitly refer to any specific type of product and service, except for buying decisions related to food (Kollat & Willett, 1969). However, the definition of an unplanned purchase in relation to impulse buying was considered to be too vague as it incorporates various behaviours. For instance, remembering to buy a packet of sugar while shopping does not indicate impulse buying behaviour. This form of behaviour is called reminder impulse buying, which is more about needing something, by thinking spontaneously, realizing that the item at home or elsewhere is out of stock (Stern, 1962). Apparently, not all unplanned buying is decided by an impulse to buy, as there are many situations where consumers will buy items recorded on their shopping list.
Factor Influence Impulse Buying Behaviour

In a study by Brici, Hodkinson, and Mort (2013), two general aspects were found to trigger impulse buying behaviour; internal and external cues. An external cue is more likely to involve a variety of external factors such as the store, retail outlet or shopping mall environment (Mattila & Wirtz, 2008; Mohan, Sivakumaran, & Sharma, 2013), an in-store display (Ghani & Jan, 2011), the performance of a website (for online stores) (Wells, Parboteeah, & Valacich, 2011), the type of food and beverage (Duarte, Raposo, & Ferraz, 2013) and the availability of money and time (Beatty & Elizabeth Ferrell, 1998). The internal cue, on the other hand, is associated with individual stimulation factors such as personality attributes (Sharma, Sivakumaran, & Marshall, 2010), self-control failure (Sultan, Joireman, & Sprott 2012) and the individual’s enjoyment of visiting the store (Verhagen & Van Dolen, 2011). Conversely, previous studies have also indicated that there are other elements to consider such as fun and intense arousal of emotions, which form the essence of impulse buying behaviours, such as the feelings of pleasure, excitement and a powerful urge or obsession to buy (Verplanken et al., 2005; Rook, 1987). However, some researchers have a different view, claiming that the elements of adverse or conflicted feelings are related to impulse buying behaviour. Interestingly, some people have ignored self-control and fulfilled their desire to remain calm, and satisfy themselves and their minds (Baumeister, 2002). In terms of the consequences of impulse buying behaviour, regularly practising impulse buying will lead to unfavourable results and negative traits such as financial difficulties, lower self-esteem, regret, immaturity, a sign of wastefulness, as well as embarrassment (Rook, 1987; O’Guinn & Faber, 1989; Zhang & Shrum, 2009; Cook & Yurchisin, 2017). In the realm of Islamic teachings and values, harming ourselves and other parties, as well as misusing wealth for unbeneﬁcial purposes is prohibited. Islam provides the guidelines for permissible and impermissible consumption activities. However, nowadays, people particularly Muslims are ignoring Shariah regulations and are continually practising unhealthy buying behaviours such as buying without thinking first or proper planning (impulse buying behaviour). Therefore, it is crucial to this study reveal how Islam perceived towards impulsive buying and it is all the impulsive buying impermissible by Islam.

Islamic Consumption

In this contemporary world, emerging issues in consumption among Muslim consumers are constantly changing from small scale towards immerse issues such as overspending, massive debt, bankruptcy, as well as financial crime, which resulted in detrimental effect on life and society. Islam never banned and prohibited consumerism, but Islamic teachings and values stipulated the rule and regulation in consumption. There are things compulsory to practice and to avoid in consumption activities. Practicing something that leads to negative consequences such as spending.
wealth or money inappropriately is definitely disapproved in Islamic doctrine. Allah S.W.T has warned in the Quran pertaining to wealth and consumption management, a Muslim must not engage with extravagance and spendthrift behaviour. Allah S.W.T says which brings a meaning:

And give to the relatives his due, and to the needy, and to the wayfarer but spend not wastefully in the manner of spendthrift. Verily, the profligate are brothers of the devils, and the devils are ever ungrateful to his Lord1 (Translation Al-Quran, 17: 26–27).

These are Allah’s words portraying squandering in expenses and consumption of wealth while ignoring the needy is loathed in Islamic teaching. From Islamic teachings, the ways to consume and utilize wealth were mentioned in Islam through the application of Maqasid Shariah. The Maqasid Shariah is an Arabic term which is a combination of two words, Maqasid and Shariah. According to Maqasid Shariah, there are five basic elements in the spirit of Shariah which are to protect and take account, namely; life, religion, dignity, intellect and wealth. These five things are essential to preserve as they are the pillars and roots of a Muslim’s life. On the other hand, consumption from an Islamic teaching encompasses five crucial elements, namely; ownership, purification and halal, moderation, beneficial and ethics or akhlak (Ghani, Harjin, & Ghani, 2008).

In Islamic teachings and values, mankind frequently enjoins to being moderate and average in practicing any worldly activities including consumption. In addition, Islam also forbids the element of miserliness such as not spending money on one’s family or others because of the fear of being poor and extravagance such as excessive expenses on unnecessary and superfluous things. Every action associated with the worldly matter should be done in balance and moderation. Any extreme activity that drives to wrongdoing is prohibited and disapproved in Islamic doctrine. Islamic legislation (Maqasid Shariah) in consumption stipulated that mankind should spend their wealth and money based on their needs and abilities.

There are three level of needs in the Islamic perspective, which implies the level of human needs and desire, namely Daruwiyyah (basic necessities of life), Hajiyah (human needs that comprise all things and activities that are not key to the preservation of faith (religion), life, intellect, offspring and property (wealth), but are necessary to alleviate life’s hardships and difficulties) and Tahsiniyah or Kamaliat (human needs that refer to things and activities that satisfy and embellishes lives of people) (Auda & Khan, 2008). Thus, in consumption and spending of wealth, Islam encourages being moderate by fulfilling the basic need and alleviating life’s hardships and difficulties. This is due to Islam wanting human beings to live in a comfortable environment, which facilitates and eases them to implement their obligation as a Muslim comprehensively, perfectly and appropriately. Excessive lifestyle and behaviour surely will result to bad manners such as being arrogant, egoistic, greedy and unthankful. Besides that, extravagances also contribute to financial hardship such as debt and bankruptcy. Therefore, any excessive consumption is impermissible in the Islamic doctrine.

---

Impulse Buying from Islamic Perspective

Basically, Islam defines any economic activity as a part of Muslim worship (ibadah). Any human behaviour is considered as the act of worship (ibadah) when it is conducted for the sake of Allah. In consumption activities, a transaction will be considered as ibadah, if the transaction is parallel with the conditions stipulated by shariah rule such as made with righteous intention, beneficial for the ummah (public) and performs the responsibility as a Muslim (Hassan & Ahmad, 2005). Righteous intention is crucial as Allah SWT will judge the action by the intention. Therefore, when we buy something fancy and expensive, Allah will judge our behaviour according to the purpose of our transaction. If the intention of buying fancy and expensive goods or services is for showing off (riya’) or high perception by others, it is considered impermissible in Islam as that action causes negative consequences such as jealousy and egoism. Muslims are required to follow shariah rules in consumption activities such as avoiding wastefulness, massive debts, prohibited transactions, as well as spending on unbeneficial goods and services that do not provide any benefit for ummah (public). Thus, the question is whether or not impulse buying behaviour is permissible and approved in Islamic consumption.

First, Islam does not like any attitude that leads to dangerous and negative impacts. Impulse buying behaviour, which is also known as unplanned buying by making an urgent and spontaneous buying without prior plan before entering the stores (Clover, 1950; West, 1951; Applebaum, 1951; Kollat & Willett, 1969; Abratt & Goodey, 1990) results in detrimental effects such as financial hardships, guilt, regrets, non-financial problems and emotional trauma (Rook, 1987). This negative behaviour is obviously prohibited in Islam as it results in detrimental effects such as self-destruction. As Allah S.W.T mentioned in the Al-Quran:

Give generously for the cause of God and do not with your own hand throw yourself to ruin. Preserve in doing well, for God loves those who do good. (Translation Al-Quran, 2: 195).

This verse demonstrates the words of Allah S.W.T about the command to avoid self-destruction. Miserliness and materialism obviously lead towards self-destruction for the individuals and also the community (Qutb, 1979). Therefore, it is clearly demonstrated that impulsive buying is unacceptable in Islamic consumption as the presence of the element of self-destruction in this consumption is prohibited in Islamic doctrine.

Second, impulse buying behaviour also creates the elements of wastefulness and extravagance that result in financial hardships such as massive debts. Islam strictly prohibits the elements of wastefulness and exaggeration in life as Allah S.W.T commanded in the Quran:

And give to the relatives his due, and to the needy, and to the wayfarer but spend not wastefully in the manner of spendthrift. Verily, the profligate are brothers of the devils, and the devils are ever ungrateful to his Lord.\(^3\) (Translation Al-Quran, 17: 26–27).

In addition, narrated by Al-Mughira bin Shu’ba r.a, the Prophet Muhammad S.A.W said, ‘Allah has forbidden for you (1) to be undutiful to your mothers, (2) to bury your daughters alive, (3) to not pay the right of the poor and others, and (4) to beg of men. And Allah hates for you (1) sinful and useless talk like backbiting or that you talk too much about others, (2) to ask too many questions (in disputed religious matter) and (3) to waste the wealth (by extravagance and with lack of wisdom and thinking)’ (Al-Bukhari, 1997b). Narrated by Ibn Mas’ud r.a, the Prophet Muhammad S.A.W said ‘there is no envy (or not to wish to be like of) except in two: a person whom Allah has given wealth and he spends it in the right way, and a person whom Allah has given wisdom (religious knowledge of the Quran and Sunnah) and he gives his decision accordingly and teaches it to the others’ (Al-Bukhari 1997a). This implies that impulse buying behaviour, which involves engaging with unplanned buying that finally results in wastefulness and extravagance obviously is despised by Allah S.W.T as stated through the Quranic verses and hadiths above. Allah S.W.T has granted humans with wisdom and knowledge, as well as, the Quran and the hadiths as the main references in their lives. Thus, they should be grateful for this favour.

Third, in Islamic consumption, the elements of organizing and clarification are crucial as any doubtful thing will lead to negative impact. As Allah S.W.T has prohibited the element of gharaar (ambiguity) in consumption, thus, it is possible to claim that in buying behaviour we need to clarify what we need, what we can afford and how to obtain it. Clearly prepared consumption objectives will facilitate buying activities without any barrier such as financial hardships due to unplanned buying (impulsive buying). Systematic consumption is crucial in order to avoid any unexpected negative impact. Islamic doctrine has taught the Muslims regarding the importance of organizing, consultation, deliberation, and planning in life. Allah S.W.T in the Quran says:

Consult with them on the conduct of public affairs\(^4\) (Translation Al-Quran, 3: 159).

This verse was addressed to the Prophet Muhammad S.A.W who must have felt uncomfortable over his people in the Battle of Uhud. In a nutshell, this verse clarifies about the Islamic method in organizing the Muslim society and the basic essence of Islamic government, as well as interpreting the importance of consultation or deliberation to examine all aspects before making a wise decision and taking action (Qutb, 1979). This verse is compatible with the impulse buying behaviour issue which unplanned buying without appropriate deliberation will ultimately result in

---


detrimental effects in our lives. Effective planning and consultation will lead to wise financial utilization.

The consumers ought to organize their consumption activities appropriately before making a final decision. For instance, before paying for luxury and expensive handbags, the consumers ought to consider their financial affordability and whether it is crucial to buy those goods. The same consideration should be given before using a credit card for impulsive buying, that is, the consumers ought to realize their debts and the consequences of excessive spending. Through their wisdom and knowledge, the consumers need to think of the consequences if they buy something that they cannot afford. Therefore, impulse buying behaviour is definitely unacceptable in Islam as Islam does not approve or like any unplanned behaviour that leads towards unfavourable effects.

However, how about a normal impulse buying behaviour or also known as suggestion impulse buying and reminder impulse buying? Normal impulse buying behaviour is classified as impulsive buying that does not frequently occur and its behaviour does not really create an adverse effect compared to pure impulse buying. This normal or suggestion impulse buying that involves the items purchased on suggestion are basically perceived as rational and functional purchases (Stern, 1962). For instance, buying household goods spontaneously when remembering that stuff out of the stock at home (reminder impulse buying) and sometimes when we are at the store, we feel a craving for an expensive chocolate cake. We pay for it because we really need it and can afford to pay for it. This buying transaction is called impulse buying when we never have any intention to buy it before entering the store. However, this study believes that this reminder and suggestion impulse buying is acceptable in Islam as long as this action does not result in negative effects such as wastefulness. However, as Muslims, we are advised to educate our desires to be low for worldly matters and avoid any prohibited elements in consumption activities.

To sum up, fundamentally, the behaviour of impulsive buying demonstrates the element of ungratefulness, which is prohibited in Islam. Impulsive Muslim consumers tend to ignore Allah’s command regarding wastefulness and extravagance and freely utilize their temporary wealth, which ultimately result in financial hardship, emotional trauma and self-destruction. They are not concerned about what Allah has prohibited and they fulfil their utmost desires. This is one of the ungrateful attitudes with the favours of Allah and disobedience of Allah’s command. On the other hand, the impulsive Muslim consumers also ignore the element of moderation (wasatiyyah) and are concerned more to their desire for worldly matters. Therefore, this study concludes that impulse buying behaviour, which leads to adverse effects such as financial hardship, emotional trauma, self-destruction and miserable life is absolutely unacceptable and disapproved in Islamic doctrine. However, normal impulse buying such as reminder impulse buying and suggestion impulse buying are permissible as the reminder impulse buying does not result in negative and dangerous effects.

Meanwhile, for suggestion impulse buying, as long as this behaviour does not contribute towards negative consequences and the goods or services are rational and functional, it is considered acceptable in Islam. Islamic consumption practices the...
element of moderation, which is a balance between worldly and spiritual matters. Any excessive or extreme behaviour is not permissible in Islam. However, some Muslim consumers still ignore the Islamic rule in consumption activities and make impulsive buying, which result in severe effects such as massive debts and miserable lives due to bankruptcy.

Conclusion

Impulsive buying is common and a frequent behaviour among consumers, and it is not uncommon to experience unplanned buying in a person’s life, having different intentions. Some consumers engage in impulsive buying intentionally and unintentionally. Impulse buying behaviour has its own advantages and disadvantages. As mentioned by previous scholars, not all unplanned buying is impulsively decided, for example, a scenario where consumers buy the items that are listed in their shopping list, although, the brand of that product is decided impulsively (Rook, 1987). Furthermore, it has been demonstrated that the meaning of impulse buying behaviour is broad and vague. In Islamic perspective, if Muslims strive to fight and avoid their unnecessary and inappropriate desires and being moderate in every aspect of their lives, then they will be able to avoid extravagance and lavish spending behaviour which inevitably results in financial difficulties and a miserable life by experiencing debt, bankruptcy, social relationship problems, health and mental illness. Indeed, when it comes to materialist and hedonic motivation matters, Muslim consumers tend to have a weakness in overcoming these desires. Sadly, they are concerned with satisfying their demands and desires regardless of the unfavourable outcomes and effects of that behaviour. Moreover, Muslim consumers should be concerned with the teachings of Islam regarding consumerism. Being moderate is the primary key in a Muslim’s life. The behaviour of overspending, lavish spending, wastefulness and seeking social standing and fame can drive people to experience negative consequences, of which are obviously prohibited in Islam. Therefore, as Muslims, people need to be more concerned about what Islamic teachings and values teach and always believe that being moderate in every aspect of life will provide a peaceful and blessed life.

References


Qutb, S. (1979). In A. Salahi (Ed.), *In the shade of the quran*. Petaling Jaya: ABIM.


Islamic-Based Relationship Marketing: An Integration of Internal and External Marketing

Murni Yusoff

Abstract  The emergence of relationship marketing (RM) evolved since the 1980s in giving an alternative to transactional marketing. RM is widely implemented in services and manufacturing industry. Literatures through studies appeared to contribute in the field by contemporary researchers through conceptual and empirical studies. Although it has been discussed by contemporary scholars, the discussions are mostly from certain perspectives. For cultural perspective, specifically, Islamic perspective is still lacking in the discussion. In present, RM is also implemented in Islamic business organizations. Why there is a need to study RM in Islamic perspectives? What is the implication of using existing RM in organizations? Therefore, this paper attempts to identify the concept of Islamic-based RM to be applied in Islamic business organizations. The findings of the study are the concept of Islamic-based RM, and is based on Tawhid. The Islamic-based RM is integrated by internal and external RM that are used as principles to be applied in Islamic business organizations.

Keywords  Internal marketing · External marketing · Islamic-based relationship marketing

Introduction

In 1980s, RM is evolved to be discussed by most of the marketing scholars when it is applied in business organizations including services and manufacturing industries. RM involves two main types of focus, namely customer acquisition and customer retention. For customer acquisition, the organization should have the ability to balance the number of customers being acquired with the number defecting. This type requires the determination of the number of customers in each stage of the customer life cycle and the anticipation of their migration paths. Meanwhile, for customer retention, there are two concerns related to purchase cycles. First, for products with

M. Yusoff (✉)
Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia, Gelugor, Penang, Malaysia
e-mail: murniyusoff.usm@gmail.com

© Springer Nature Singapore Pte Ltd. 2019
short purchase cycles, the customer continues to purchase the product/service over a specified time period. Second, for products with long purchase cycles, the customer indicates the intention to purchase the product or service at the next purchase occasion (Shajahan, 2004).

Although there are two types of focus in RM, the main concerns in RM is retaining the customers, as marketing should not begin and end with clinching the deal, but also to concern on keeping and improving the relationship with the customers (Payne, 1994). Some scholars agree that the efficiency and effectiveness of RM practices can be achieved through customer retention (Rosenberg & Czepiel, 1984; Sheth & Parvatiyar, 1995). Customer retention refers to the capability of the business organization’s offer to its customers to purchase on patronage its product or service over a specified time period (Shajahan, 2004). Customer retention involves external marketing (EM) that can be implemented after internal marketing (IM) in the business organizations are fulfilled. The success of EM depends on the IM (Liljander, 2000; Lings & Greenley, 2005). IM apart from RM that represents internal RM approach is implemented in the organizations. IM is perceived as a strategy for creating a ‘state of mind’ in personnel that will allow customer service effectiveness under a broader RM paradigm (Huang & Rundle-Thiele, 2015).

IM involves hiring, training, and motivating capable employees who serve customers while EM involves marketing that directed to the people outside of the company (Kotler, 2002). A successful IM considers three dimensions in practice such as internal communication, training and internal market research\(^1\) (Huang & Rundle-Thiele, 2015). EM and IM are connected to each other in relationships that exists in the business organizations. The relationship exists in IM, which involves training and motivating employees, as well as keeping them informed about the company’s internal and external strategies, external communication and market information. The relationships that are made in EM had to be facilitated internally and realized in interaction with customers (Liljander, 2000).

Figure 1 shows that the pyramid comprises of three relationships connected to RM in a company or an organization. The three relationships are company–employee relationship, company–customer relationship and employee–customer relationship that represents internal RM, external RM and fulfilment of external relationship promises, respectively. The relationships are connected to each other in a way that the company deals with employees and customers. RM approach is implemented in the business organizations in preserving both relationships with employees and customers.

In present, RM is also implemented in Islamic business organizations. Why there is a need to study RM in Islamic perspectives? What is the implication of using existing RM in organizations? Therefore, this paper attempts to identify the concept of Islamic-Based RM to be applied in Islamic business organizations.

\(^1\)Internal communication consists of traditional tools of promotion such as advertising and personal selling are frequently used to communicate with customers. Training represents the scope of IM that has been perceived as human resource management functions. Internal market research is an effective tool in any industry to analyse the types of employees and understand employees’ needs (Huang & Rundle-Thiele, 2015).
Fig. 1 Functions of RM. Sources Liljander (2000)

Methods

The data collected using document research and unstructured interviews is analysed using qualitative content analysis. The document research covers the Quran, Tafseer, Hadith, books, journals and articles, while the unstructured interviews obtained from experts with the background of Islamic contemporary scholars, academicians, and industrial practitioners.

The Needs of RM from Islamic Perspective

The discussion in this part is divided to literatures related to issues in marketing practices in various industries and studies in Islamic RM from various researchers. First, the issues related to marketing are familiar in various industries. From services to manufacturing industries, there are issues related to marketing practices by the marketers in the industries. However, in literatures, the issues related to marketing practices are popular to be discussed in financial services industry as the industry involves financial matters.

For banking and insurance industry including Islamic banking and Takaful, number of studies have been done to highlight the issues of marketing practices (Lin, 2012; Mazviona, 2014; Mohammed, 2015; Salleh, 2014a; Syed Moheeb Syed Kamarulzaman, 2012; Inderst & Ottavani, 2009; Marta & Singhapakdi, 2005; Sunayna & Kaur, 2017; Anagol, Cole, & Sarkar, 2013; Halan, Sane, & Thomas, 2013; Mittal, Saxena, & Matta, 2014; ; Mohamed, Alhabshi & Sharif, 2013Pezhman, Javadi, & Shahin, 2013).
There are several implications arise if the issues of unethical marketing practices discussed above persist in the Islamic financial services industry. The implications are divided into three points of view. First, the reputation and good image of Islam are affected as Islamic banking and Takaful represent Islamic business organizations. Second, marketers and salespersons in Islamic banking and Takaful are mostly Muslim. Thus, any unethical practices lead to bad perception of the whole Muslim community, especially from the non-Muslims. Third, the philosophical underpinnings in the worldview and epistemology of Islam are different from others.

From a religious perspective, specifically, Islamic perspective has different concept begins from its worldview and epistemology. The absence of divinity element in RM from its root has created the imbalance of life though from the context of business and marketing. Business and marketing are interrelated in sustaining the organizations. Thus, it is important to be conducted in the right way according to Islam, especially for those Islamic business organizations. Although Islam highly encourages Muslim to be involved in business, the high-end level to be achieved is the dual goals, material and spiritual gains. The material gains need to be balanced with spiritual achievement in contributing to the economic and social growth, as well as seeking the pleasure of Allah SWT (Mardatillah). Islam also emphasizes on the spirit of brotherhood in all aspects of life including business activities, and RM is one of the appropriate approaches to be implemented as it concerns more on building and maintaining relationships among people (Yusoff, 2017).

In competing with other business of the same products provided, there are guidelines to be followed in Islam. As a Muslim marketer or businessman without feeling the divine existence in his life, all his activities in marketing products and services would depend on the concept of winning in competition, to be a winner with making other competitors fall. His life will deal with greediness, hypocrisy, the devotion of amassing wealth, deification of money and diversion from the remembrance of Allah SWT. There is also less dependency on Allah SWT when he believes the success that he achieved are from his own efforts, and not by Allah SWT’s willing. In the end, he will become *Kufr* with the individualistic and materialistic attitudes (Khalifa, 2001).

Based on the earlier discussion, there is a need to have an Islamic way of marketing concept that fits the Muslim’s affairs in the society. The Islamic way of marketing concept must be based on Islamic philosophical underpinnings, namely *Tawhid* (Oneness of God). *Tawhid* is the core of the Islamic worldview that guides the life of Muslim. The Islamic worldview has its direct link to the man’s life. Berghout (2010) stated that Islamic worldview provides man with a vision of life in aspects of cosmological, theological, epistemological, ethical, legal and civilizational and vicegerent orientations. In details, Berghout addressed seven aspects of Islamic worldview as a vision of man’s life. First, Islamic worldview provides man about the cosmos and cosmological truths and patterns. Second, it explains the epistemological rules and principles that need to be considered while dealing with the issues of existence and life. Third, it demonstrates the theological matters pertaining to the belief system and matters of faith and worship. Fourth, it also makes clear that the ethical system necessary for balance and stability in human life. Fifth, it provides the legal and legislative injunctions for the running of human affairs and judging of human acts. Sixth,
it presents man with a civilizational vision and to assist him to achieve excellence and perfection in his material, social, cultural, economic, political and aesthetical endeavours. Finally, Muslims can learn that everything happens in the world is by Allah SWT’s commands and actions.

Second, the studies of Islamic RM from various researchers started since the year of 2011. There are Islamic marketing theoretical studies that have been connected to RM concept in the definitions by Hussnain (2011), yet, the concept remains theoretical and was not applied in empirical studies. Hussnain (2011) has listed the etiquettes in marketing that is approved and disapproved by Islamic law and ethics from the Islamic scholars. The approved etiquettes are moderation and fulfilment of the demand in a way that one neither be a loser nor avaricious, refraining from earnings through all kinds of unclean activities, and equalities of prices to all customers. The disapproved etiquettes are an exaggeration in praising one’s product and services, swearing truly about the sale or purchase, hiding the defect of one’s product or services from customers, and intervene in other people’s dealing (Hussnain, 2011).

However, Salleh (2014b) has identified the concept of Islamic ethical behavior as the theoretical foundation underlying the Islamic RM together with some modification from the Western theory to be implemented in the industry. In Salleh (2014b), the elements of Islamic RM are connected to trust and commitment, and the theoretical framework is adapted from the Western theory with some adjustments.

Indeed, it is a requirement to have an Islamic RM, which is from Islamic-based as the philosophical underpinnings are different from the Western-centric business system. As emphasized by Salleh (2013), an Islamic-based development management can be actualized if the philosophical underpinnings and its implementation are based on Islamic principles and approach. Therefore, exploring and expanding the Islamic-based marketing, specifically Islamic-based RM is one of the efforts to expand the Islamic-based development management that emphasizes on relationship approach and can be applied in Islamic business organizations.

Results and Discussions

Concept of Islamic-Based Relationship Marketing

Islamic-based RM can be defined as a process of building and maintaining relationships with people for the purpose of economic growth and social justice in achieving the balance of material and spiritual gains in seeking the pleasure of Allah SWT (Mardatillah) (Yusoff, 2017). Islamic-Based RM is formed of three entities of relationships, namely the relationship of man with God, the relationship with people and the relationship of man with nature. Those three entities portray the concept of Tawhid (Oneness of God), which is the core of IBRM approach. Tawhid is described as the root of Islamic economic’s philosophy (Othman & Din, 2005).
Tawhid is a way of life, that has been guided by all prophets to their people. The essence of Tawhid is a man’s innate quality which must be transformed immediately into action and it must become a concrete reality in the world. Tawhid has effects on every aspect of man’s life such as individual, family, social, political, and cultural life (Ali, 2006).

Tawhid also represents the roles of man as the vicegerent and servant of Allah. In performing those roles, the man who is also known as a development actor has to preserve two important relationships such as vertical relationship (Habl min Allah) and horizontal relationship (Habl min al-nas). The vertical relationship represents man as a servant of Allah while the horizontal relationship represents man as vicegerent of Allah (Salleh, 2003).

In applying the concept of Tawhid, the vertical and horizontal relationships represent three entities such as the relationship of man and God, relationship among man and relationship of man and universe that influence every action of a Muslim. Daud (1993) highlights the relationship between man and Allah SWT is how the man knows Allah through its six pillars of Iman (Faith) and five pillars of Islam. Iman is responsible for releasing the soul from the influence of material and lust. All efforts are intended for the sake of Allah SWT to seek His pleasure. The implementation of Islamic five pillars has its own function as a symbol of the declaration of self on the existence of Allah SWT. It represents the humbleness in front of Allah SWT to form a Muslim’s personality that is pious, humble and Ihsan.3

Further, the relationship among man is preserved after the relationship with Allah SWT is accomplished. As a man who lives with other people surrounding, the interaction between them are important in shaping the family, neighbours, society, country, economy, culture, education, and including human relationship discipline (Daud, 1993). Meanwhile, the relationship between man and universe has been guided by Allah SWT on how a man should behave when deals with the universe as the universe is made for the importance and utilization of man (Daud, 1993).

Integration of Internal and External Marketing in Islamic-Based RM

From the three relationships discussed from the concept of Tawhid, they can be illustrated in internal and external relationships. Internal relationships (Habliminnallah) are represented by three principles such as sincerity, Tawakka, and Qana’ah, whereas the external relationships (Habl min al-nas) are represented by four principles such as

---

2 The six pillars of Iman comprise of believe in Allah SWT, believe in His Angels, believe in His Holy Book, believe in His Messengers, believe in the Day of Resurrection and believe in preordainment while the five pillars of Islam comprise of pronouncement of the confession of faith, performance of the five times daily prayers, fasting during the month of Ramadhan, paying Zakat and pilgrimage to Mecca.

3 Ihsan appears to exist from the awareness about the existence of divine power of Allah SWT every time and everywhere (Daud, 1993).
as Khilafah, justice, Wasatiyyat and Ukhuwwah. In Islamic-based RM, the internal relationships are represented by internal RM while the external relationships are represented by external RM.

In internal RM, the three principles of Ikhlas, Tawakkal and Qanaah describe the relationship between man and Allah SWT. The first principle is Ikhlas or sincerity. Every action must be conducted and completed with sincerity. One of the Quranic verses that emphasize on sincerity is as follows:

And [commanded], ‘Direct your face toward the religion, inclining to truth, and never be of those who associate others with Allah’.

(Yunus (10): 105)

Kathir (2003) have interpreted the above verse as whoever obey the commands of Allah SWT and keeping away from what have been prohibited, Allah SWT has prepared for him the way out from the problems and gain the unexpected reward from Allah SWT.

In marketing practices, Tawakkal is needed when it relates to seek for the sales transaction. The volume of sales transaction determines the marketer’s performance and commission earned in the business organizations. Thus, the commission is one of the Rizq for the marketer as the higher the sales, the higher would be the commission he gained. After putting a lot of efforts regardless of time and energy in marketing financial services products to prospects and customers, the marketer needs to put his trust to Allah SWT to bestow him with the predetermined Rizq. As highlighted by Khalifa (2001), Rizq is part of Qadr and it has been predetermined. However, nobody knows how large is his Rizq is, because the Rizq is predetermined in Allah’s knowledge.

The second principle is Tawakkal or relying upon Allah. One of the verses of the Quran mentions about Tawakkal:

And whoever fears Allah - He will make for him a way out. And will provide for him from where he does not expect. And whoever relies upon Allah - then He is sufficient for him. Indeed, Allah will accomplish His purpose. Allah has already set for everything a [decreed] extent.

(at-Talaq (65): 2–3)

Kathir (2007) states that in the above verse, Allah has ordered to purify Ibadat and to be done for the sake of Allah only. As a marketer, the job must be done with a sincere heart for the sake of Allah in order to get His blessings. The roles of marketer need to be conducted with sincerity as the Islamic business including Islamic financial services bring the message of spreading Islam (Yusoff, 2017).

The third principle is Qana’ah. Qanaah is to show the value of grateful on whatever Rizq that has been given by Allah SWT. As explained by Othman & Din (2005), Qana’ah means feeling satisfied with everything that is given by God. One verse of the Qur’an explains Qana’ah as follows:

And do not extend your eyes toward that by which We have given enjoyment to [some] categories of them, [its being but] the splendor of worldly life by which We test them. And the provision of your Lord is better and more enduring.

(Taha (20): 131)
Kathir (2007) and Abdullah and Khalid (2009) have described the above verse as do not feel love to the wealth of the disbelievers that against you, because all the wealth are not helping them from the punishment from Allah SWT, whereas whatever given by Allah SWT in this world and keep in the hereafter are better and everlasting.

Qana’ah affects the relationship built with the customers. As a marketer, he needs to know what the customer needs for protection and to aware of the customer’s affordability to pay for what he has subscribed or purchased. If there is an attitude like forcing and immoderate persuasion that makes the customer agree to purchase the product beyond his affordability, the customer will live in financial burden due to purchase the products that he could not afford to pay or the product that he does not need. Qana’ah is important to be cultivated among marketers in order to motivate them to be grateful for what has been given by Allah SWT and not only for the sake of achieving own sales target or commission.

On the other hand, external RM describes the relationship among man and relationship of man and the universe. The four principles affected are Khilafah, ‘Adl, Wasatiyyah and Ukhluwwah. Khilafah or vicegerency is the first principle. Khilafah is essentially an ethical responsibility that persuades a Muslim to do their best in the establishment of social justice, peace, security and dignity in human societies. In the context of marketing, marketers need to perform their roles as vicegerent by having leadership skills and spirit of working like Prophet Muhammad SAW. Marketing is one of the main efforts to create awareness to customer and sales are the positive response from target customer after marketing activities have been conducted. A marketer who serves as the vicegerent will perform marketing activities and sales with ethical and responsible in any action. The marketing and sales practices are conducted simultaneously as the purpose of marketing is to sell the product or services to target customers.

The second principle is ‘Adl or justice’. Generally, justice is defined as a concept of moral rightness based on ethics, rationality, law, natural law, religion, or equity, along with the punishment of the breach of said ethics and justice is the act of being just and fair. However, in Islamic worldview, justice indicates placing things in their rightful place and it means giving others equal treatment. Justice is close to equality in the sense that it creates a state of equilibrium in the distribution of rights and duties, but they are not identical due to sometimes justice is obtained through inequality, such as unequal distribution of wealth (Abdullah & Nadvi, 2011).

Further, the third principle is Wasatiyyah. The word ‘Wasatiyyat’ comes from the Arabic word Wasat, which means ‘center’ or ‘medium’ (Ibrahim, 2012a). Wasat also refers to middle or moderate, which means always avoid extremes of behavior or disclosure; tends towards the middle ground, and the view enough to consider the opinion of others. The word of moderate can also mean taking the middle position between two things that are mutually contrary such as the spiritual and material, individual and communal, realistic and idealistic, fixed and flexible and so on Ibrahim (2012b). Wasatiyyah is applied in structuring a business from the beginning, because it can affect the goals achieved in the end. The main goal in business is not only to maximize profit, but it must be balanced with the gains from the spiritual aspect.
One of the spiritual benefits that can be obtained is through social responsibility of individual or organization to the community. One of the sources of income is through business. Thus, in doing business, the goal of the business is not the absolute profit to be achieved, yet, the goal needs to be balanced in material and spiritual aspects. This also includes the marketing approach, specifically RM which emphasize on the relationships to be built and maintained with customers (Yusoff, 2017).

The fourth principle is *Ukhuwwah* or brotherhood. *Ukhuwwah* is important in building a relationship to grow closer and sustainable. As a Muslim, the consciousness to take the responsibility as a vicegerent on earth is needed to ensure the relationship among human and relationship between human and nature are in good condition and not to bring any harm. Philips (2006) stated that the brotherhood of Muslims is not just a theoretical aspect of the Islamic ideology, but it was evident in the actual practice of early Muslims as they spread Islam to all people across the world. In the context of marketing, relationships need to be nurtured among the Muslim is not only for the sake of business, but it is also more than that. Brotherhood should be viewed in the larger scope in the life of a Muslim as it is required by Islam. Brotherhood can be perceived as a source of rewards, whereby the marketers with intention because of Allah SWT build the relationships with as many people including non-Muslims. Indirectly, brotherhood also can increase the business development through the relationships built and maintained (Yusoff, 2017).

In a nutshell, the concept of Tawhid represents the core of the Islamic-Based RM approach. From the concept of *Tawhid*, internal relationships and external relationships are identified. The internal relationships comprise of three principles while the external relationships comprise of four principles are used to attain *Maslahah ‘Ammah* and seeking for *Mardatillah* for individual achievement in the hereafter. The goal of *Maslahah ‘Ammah* is in the context of society and *Mardatillah* is in the context of the individual goal.

**Conclusion**

From the cultural perspective, the existence of RM is revisited in the Islamic perspective as RM is implemented in Islamic business organizations as the marketing concept. There are two major differences between the concept of RM that has been introduced in the West. First, the underlying concept in Islamic-Based RM is Tawhid. Another difference is in the internal and external relationships embedded in RM that utilize the relationships of vertical and horizontal derived from the concept of *Tawhid*.

4 Wherever the early Arab Muslims went, whether it was Africa, India, or some other remote corner of Asia, they welcomed with open arms all who embraced Islam regardless of colour, race or former creed (Philips, 2006).

5 *Maslahah* is defined by al-Shatibi as what produces benefits for people at collective or individual level and is acceptable to human beings because of its importance for their lives while Ibn Ashur explain Maslahah as an attribute of the act, whereby righteousness and goodness takes place, that is to say, utility and benefit always for the public or individuals (Lahsasna, 2013).
The internal and external RM practiced in the West are basically involve with human relationships only and absent of divinity in marketing concept. The future suggestion of the research is to include other methods such as quantitative research and focus on Muslim marketers on their understanding and awareness towards Islamic-based RM.

References


hajarsalwa@gmail.com


Part IV

Waqf and Takaful
Development Framework for Affordable Housing on Waqf Land

Nurzafira Zainul Abidin and Noraliza Basrah

Abstract Poverty eradication in Malaysia has been one of the fundamental objectives of New Economic Policy (NEP) since 1971. The level of urbanization has rapidly increased from 34.2% in 1980 and goes up to 71% in 2010, which contribute to urban poverty. With the increase of the urban population, the housing supply in the urban area contrarily decreases. As most countries’ prime concern in urban development concept lies on the scarcity of land, this study embarks to focus on the abundance of undeveloped Waqf land in Malaysia. Therefore, this study will be focusing on the development of affordable housing on Waqf land, which will cater to the urban poor. The objective of this study is to establish a development framework for affordable housing on Waqf land. To develop the framework, a critical evaluation will be conducted in the existing development framework from various perspectives in order to form a conceptual framework. Semi-structured interview will be carried out to test the conceptual framework. The respondents will be among the expert in their own field which is developers, officers from Waqf Departments, as well as legislators. The interviews will be transcribed and undergo qualitative and quantitative content analysis process in order to come up with emerging features for the proposed development framework. The proposed development framework is intended to solve three targeted issues in this country, namely urban poor, affordable housing, and Waqf land. The Development Framework for Affordable Housing on Waqf land is expectedly to cater to increase housing supply for the urban poor and development opportunity of the Waqf land.

Keywords Affordable housing · Development framework · Urban poor · Waqf land

N. Z. Abidin (✉) Centre of Studies for Postgraduate, Shah Alam, Selangor, Malaysia e-mail: zafirazainul@yahoo.com

N. Basrah Centre of Studies for Estate management, Shah Alam, Selangor, Malaysia

N. Z. Abidin · N. Basrah Faculty of Architecture, Planning and Surveying, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia

Introduction

The poverty trend in Malaysia seems to be decreased, where in 2009, the poverty rate is 3.8% decreased to 1.7% in 2012. In 2014, the poverty rate further reduced to 0.6% from the total population and to 0.4% in 2016 (Department of Statistic Malaysia (DOSM)). Even though the poverty rate has been reduced intensely in less than 10 years, but the urban population keeps increasing through urbanization which become one of the contributors to the urban poverty. This has become overcrowding in the urban area and uneven distribution of development in some areas. Overcrowding in the urban area has forced more developments to be made compared in rural areas, especially housing development because shelter or dwelling is a need to be provided to the urban population. These housing developments have to be sold with a certain price in order to provide affordable housing and to avoid the growth of poverty rate in the country.

On the other hand, the lands in the urban area mostly have been developed, and there is one main problem in developing the houses is the scarcity of land. So, one of the ways in solving this problem is to develop the houses on every land in the urban areas including on Waqf land. But the development of Waqf land is not similar to any development on other lands. There are conditions to be complied with in order to develop Waqf land. Therefore, the identification of different development frameworks has to be done to design a suitable development framework for the development on Waqf land. This paper addresses three main questions to create a conceptual framework.

- What is affordable housing? Based on the differences of affordable housing and subsequently, a brief summary on the types of affordable housing in Malaysia.
- What are the elements involved in land development? Referred to several of the existing developments and previous studies.
- What are the elements have to be considered for the development on Waqf land? The differences in the elements and combination of elements that produce development framework for Waqf land.

Affordable Housing

Affordable housing term is widely used in Malaysia where most of the other countries often used the term of public housing. Both of these terms are basically the same where this housing comes from the strategies of the government. In the United States of America, public housing program has been developed for more than 70 years starting at the federal level in 1937, which provide help to the public in terms of financing of low-cost housing (Stoloff, 2004). This public housing has its own target population, site selection, financing, and design, which has been set by the authorities.

As for public housing in Singapore, it is planned and developed by Singapore’s public housing authority, which is Housing Development Board (HDB). It was estab-
lished in 1960 and has housed more than 80% of Singapore’s residents. HDB have provided various different types of government initiatives, which caters different categories of residents (HDB, 2018). Even though there are differences between both countries, the government’s responsibility to help their people will never be forgotten. As well as in Malaysia, the government has provided various types of affordable housing across the country to ensure the well-being of the people. Affordable housing programs that has been provided by the government such as Program Bantuan Rumah (PBR), Program Perumahan Rakyat (PPR), Perumahan Rakyat 1 Malaysia (PR1MA), Malaysia Civil Servant Housing (PPA1M), and Skim Perumahan Mampu Milik Swasta (MyHome). All of these affordable housing programs have its limit of household income, maximum area for each type of affordable house and the range of the price. It is to ensure that the people who really need it can own these affordable houses.

However, affordable homes in Malaysia are still inadequate where based on reports provided by Bank Negara Malaysia in 2015, the number of households is about 166,000 and the completion of new houses is about 80,000, which shows that it is about 80,000 shortage of housing supply between 2011 and 2015. In order to help the people to own a house and one of the potential ways to solve this problem is by developing the Waqf land to construct an affordable housing program. Nevertheless, Waqf land should not be developed arbitrarily and it must be shari’ah compliance.

**Property Development**

The Town and Country Planning Act 1976 of Malaysia defines property development as “the carrying out of any building, engineering, mining, industrial or other similar operations in on, over or under land, or the making of any material change in the use of any buildings or other land, or the subdivision or amalgamation of lands”. Reference to Mohammed, Mar Iman and Awang (2009) stated that definition according to the law of Town and Country Planning Act 1976 does not include social and spiritual development which is requirements of the development of Waqf land. According to Byrne and Cadman (1984), property development is a process executed by development agency either on its own or otherwise to meet the social and economical demand through land rehabilitation and construction or building refurbishment for the purpose of its own occupation or other party’s occupation. They stated that there are three phases in the development process, which is acquisition, production, and disposal. A study from D’Arcy and Keogh (1996a, b), there are a few elements that need to be considered in property development analysis which embedded with environments, which is political, economic, social, and legal frameworks. Below is the land development process, which shows the elements involved based on studies by previous researchers.

Table 1 indicates the elements involved in the development process, which derived from the literature review by the authors. It is shown that different authors stated different elements involved in the development process. These elements have
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Predevelopment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Concept/Idea</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Market research</td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Financing</td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Feasibility</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Site investigation</td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Design and costing</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Town planning</td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>•</td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>• Site purchase</td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Development process</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preconstruction</td>
<td>*</td>
</tr>
<tr>
<td>Development</td>
<td>*</td>
</tr>
<tr>
<td>Construction</td>
<td>*</td>
</tr>
<tr>
<td>Post-development</td>
<td>*</td>
</tr>
<tr>
<td>Stabilization</td>
<td>*</td>
</tr>
<tr>
<td>Promotion</td>
<td>*</td>
</tr>
<tr>
<td>Asset management</td>
<td>*</td>
</tr>
<tr>
<td>Sales</td>
<td>*</td>
</tr>
</tbody>
</table>
been categorized into three main stages, which are predevelopment, development, and post-development.

Waqf

Reference to Sabran (2002) defines Waqf as to protection of the thing from becoming the property of the third parties and as in study by Sadeq (2002), describe Waqf as is a continuous and charitable act which serves as an instrument to strive for the main objective of an Islamic economic system, namely equitable and just distribution of wealth. According to the Department of Awqaf Zakat and Hajj (JAWHAR), generally, there are two types of waqf, which are Family Waqf and Khairi Waqf. Family Waqf is devoted to family members determined by the Waqif (the person who give Waqf). Whereas, Khairi Waqf is divided into two parts, namely Wakaf Am and Wakaf Khas. According to Islamic law, Wakaf Am is defined as Waqf created for the purpose of general charity. While for Wakaf Khas, it is a Waqf created for the purpose of certain charity such as mosque and school.

Reported by Zakaria, Hassan, and Abdul Latiff (2014), the current condition of Waqf land in Malaysia is 92.8% undeveloped. Meanwhile, in 2015, it is estimated that the total value of Waqf land is almost RM 4 billion. This shows that Waqf land is not fully utilized, which is the income from Waqf land that can be used for the purpose of helping ummah. In solving the three main aspects, which is urban poor, shortage of affordable housing, and undeveloped Waqf land, it suggests to build affordable housing on Waqf land. Nevertheless, as it has been mentioned earlier to develop Waqf land is not similar to develop any other land. All the elements involved in the development process must be shari’ah compliance.

As stated by Zakaria et al. (2014), there are three basic elements in the development of Waqf land which is legislation, development, and financial. By all means, all these three elements must follow the Islamic guidelines and legislation (syara’). In the first element, which is legislation, generally provisions of the law on the development of Waqf land is based on National Land code 1965 (Act 56) and Federal Constitution. But in some states, there are provisions that is specialized for matters involving Waqf such as for Selangor, there is Wakaf (State Of Selangor) Enactment 1999. For the second element, which is development, the issues related are focused on the developer, location of the land, types of development to be developed, risk, and social impact. And for the last element is financial, which regarding the most important is the resources that can be used to develop Waqf land comprising endowment cash, financial institutions, as well as ownership of the property.

A study by Omar, Rahman, Mazlan, Abu Bakar and Abd. Kadir (2013), Islamic Religious Council of Pulau Pinang (IRCPP) adapted five methods in obtaining financial funds for Waqf land developments, which is Malaysian Plan Allocation (RMK 8–10), from private sector, from Waqf Financing Fund, joint venture with Government-Linked Companies, as well as the implementation of Istibdal. Kedah.
Darul Aman Islamic Religious Council (KDAIRC) have listed out the development process of Waqf land in general. The flow of works is as (Fig. 1).

Waqf as defined by JAWHAR is the endowment of any properties held by al-waqif (doner) and restrict it from any sale, inheritance, hibbah, and will while maintaining its physical resources. Income or benefits of the Waqf property is necessarily spent on goodness and virtue as intention of the al-waqif getting closer to Allah S.W.T. By reason, the property is no longer the property of the al-waqif, it shall not be taken back and cannot be owned by anyone.

As the Waqf land cannot be transferred or inheritance, IRCPP has developed Seetee Aishah Waqf land through a joint venture with UDA Land North Bhd. IRCPP planned to develop a mix development project consists of nine units of three-storey shop lots and 76 units of two-storey houses. Once the development is completed, IRCPP is offered to choose one of the four tokens by UDA Holdings Bhd. IRCPP chose to get the land/new building value in addition to some profit margin including with all nine units of shop lots handed over to IRCPP as a compensation/reward for joint venture development project. The study by Omar et al. (2013) have summarized the modus operandi of Seetee Aishah Waqf development as follows (Fig. 2).
This process of Waqf land development also has been explained by JAWHAR in their *Manual Pengurusan Tanah Wakaf (2006)*, under the paragraph Process of Long Term Rental or Lease of Waqf land. The process stated involves acceptance, report, evaluation, and paperwork for long-term leasehold or lease of Waqf land proposals. The processes are as follows:

- The Waqf manager receives the application or official letter or proposal paper leasing the Waqf land from the developer.
- Waqf Manager manages negotiations with the relevant developer.
- Waqf Manager manages tour with developers to the relevant Waqf land.
- Waqf Manager makes an assessment of applications with external agencies such as Valuation and Property Services Department (JPPH).
- The Waqf Manager prepares reports and proposals to be tabled to the State Islamic Religious Council (SIRC) Meeting with the following information for obtaining lease agreements on the relevant Waqf land:
  - Land topographic information;
  - Developer Profile;
  - Image of location/site of land; and
  - Development Proposal Paper.

- Waqf Manager informed the decision to the successful developer together with the offer letter of the lease.
- Waqf Manager receives answers and feedback within 14 days from the date of offer.
- Waqf Manager manages the provision of Lease Agreement Letter
- Waqf Manager will check the Letter of Agreement to ensure the information is complete and correct.
- Waqf Manager complete lease agreements between developer and SIRC.
Waqf Manager handed over a copy of the lease agreement letter to the developer and lawyer.
Waqf Manager filed the Letter of Agreement.

Although it has been stated the Waqf land development process by JAWHAR and other relevant authorities with reference to the National Land Code 1956 for the reference of SIRC, there still have problems arise. SIRC has to comply with three main elements, namely legislation, financial, and development in developing this Waqf land, in which all three elements must be shari’ah compliance.

A study by Mohd Ali, Ahmad and Ahmad Mahdzan (2015) stated that there are four main issues regarding undeveloped Waqf land, which are unclear of the current status on Waqf land development, inefficient management of Waqf land, types, and location of Waqf land, and lack of financial resources. This has been supported by Ismail, Salim and Ahmad Hanafiah (2015), which listed out the issues and challenges in developing Waqf land. Among the issues and challenges that have been stated are ownership and registration of Waqf land problems, financial resources, incomplete databases, and shortage of competent manpower (Ismail et al., 2015).

Conceptual Framework

The elements involved in the land development process and Waqf land have been discussed earlier. Based on exploration on the current status of affordable housing programs and practices of land development process, as well as elements involved in development on Waqf land, this study is proposing a conceptual framework of the development of affordable housing on Waqf land.

Figure 3 is the conceptual development framework of affordable housing on Waqf land. This conceptual framework was developed by adapting the basic elements in a study by Zakaria et al. (2014) where it is consists of legislation, development, and financial. In their study, stated that these elements are necessarily followed the Islamic guidelines. Referring to the elements involves in the development process, the development process of Waqf land by KDAIRC, and Manual Pengurusan Tanah Wakaf by JAWHAR, the conceptual framework is established. As mentioned earlier, the development process can be divided into three main stages, which are pre-development, development, and post-development. Every stage has its own elements involved and all these elements must be shari’ah compliance.
Urban poverty seems to be one of the factors that prevent Malaysia to be developed country, because it is measured through to strategically help these people to have proper shelter in sustaining the economic growth and improve their standard of living. With the affordable housing program provided by the government, it helped this urban poor to own a house in a certain period of time. But still, the shortage of Houses Human Development Index (HDI) and Gross Happiness Index (GHI). Urban poverty seems to be occurred because of the overflow of population in major cities. And, it is the governments’ responsibility still occurs. This study explores and discusses the current affordable housing program, land developments process, and Waqf in Malaysia context including the issues and problems. As for the findings, this study also provided a conceptual framework with reference to the previous studies, which proposing a development of affordable housing on Waqf land. It is believed that developments of affordable housing on Waqf land is necessary in order to eradicate the urban poverty especially in helping them to own a proper house as shelter and to avoid overcrowd living conditions.

Fig. 3 Conceptual development framework of affordable housing on Waqf land

Conclusion
Acknowledgements  The authors wish to acknowledge Islamic Religious Council of Pulau Pinang, Kedah Darul Aman Islamic Religious Council, Department of Awqaf, Zakat, and Hajj, and all the authors whose insight on Waqf Land Development that helped us establish the conceptual framework. The authors also wish to thank the Centre of Postgraduate Studies and Estate Management Studies of Universiti Teknologi MARA and all our colleagues who kindly provided valuable and helpful comments of this paper.

References


Department of Statistic Malaysia (DOSM).


hajarsalwa@gmail.com
Application of Maqasid al-Shariah Principles in Auto Takaful Underwriting Practices

Salman Lambak, Hartini Ab Ghani, Md. Faruk Abdullah and Zunaidah Sulong

Introduction

The series of success and accomplishments of the Takaful industry worldwide recent years has seen sizable growth in gross written contributions, similarly known as revenue. There appears to be growth momentum in Takaful’s three key markets, which are Saudi Arabia, UAE and Malaysia (Abdou, Ali, & Lister, 2014).

Saudi Arabia cooperatives account for nearly half (48%) of the share of global gross Takaful contributions, as shown in Fig. 1. ASEAN countries, namely Malaysia and Indonesia, account for nearly one-third (30%) of total gross Takaful contributions, followed by other GCC countries (Bahrain, Kuwait, Qatar and UAE, excluding Saudi Arabia) at 15%. Africa, South Asia and Levant account for 7% of global Takaful contributions. GCC countries registered growth of about 82% (2009–2015), whilst ASEAN recorded a buoyant growth of 176% for the same period (Akhtar 2018; EY, 2015; Ismail et al., 2017).

Figure 2 lists out the key players in Takaful led by Saudi Arabia with a market share of 51%. And Malaysia, be the second country pioneering the Takaful industry, has the most mature Takaful market in the world (Alshammri & Saiti, 2016).

Narrowing down into Takaful business in Malaysia, it is obvious to claim that the Takaful sector in Malaysia is dominated by Family Takaful business at 77% in

S. Lambak (✉) · H. A. Ghani · Md. Faruk Abdullah · Z. Sulong
Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin, 21300 Kuala Terengganu, Terengganu, Malaysia
e-mail: salmanlambak@unisza.edu.my

H. A. Ghani
e-mail: hartinighani@unisza.edu.my

Md. Faruk Abdullah
e-mail: farukabdullah@unisza.edu.my

Z. Sulong
e-mail: zunaidah@unisza.edu.my

© Springer Nature Singapore Pte Ltd. 2019
terms of net contribution (Abduh, Omar, & Tarmizi, 2012; Akram Laldin, 2008; Bank Negara Malaysia, 2014; Ismail et al., 2017) as illustrated in Fig. 3.

The main purpose of this paper is to provide an insight review of Takaful market in Malaysia and its association with maqasid shariah, particularly from the underwriting perspective. This paper will also attempt to briefly highlight the existing theories and frameworks of maqasid shariah based on classical and contemporary scholars such as Al-Ghazali and Abu Zaharah. This paper also intends to point out issues experienced by Malaysian’s auto Takaful operator in gaining their business.
profit resulting them to disintegrate themselves from or not applying the principles of *maqasid shariah* in their underwriting practices.

**Literature Review**

Takaful itself, being a subset of risk management as a risk transfer or sharing, is a primary tool used in the Islamic finance industry to safeguard the life and wealth of Muslim collectively (Abdullah, 2012). Takaful helps in reducing worry and fear, indemnifying loss and damage, and providing protection to the participant, his descendants and his property or wealth according to the injunctions of shariah (Jaffer, Ismail, Noor, & Unwin, 2010).

Indeed, such noble features of Takaful enable it to position itself to become the financial sector that promotes the objectives of shariah, well known as *maqasid shariah*, in the global economy. This main objective of Takaful, according to Laldin and Furqani (2013), risk being shared among participants, and loss being borne by not an individual but shared accordingly with all participants is the beauty of Takaful that fixes well within the framework of *maqasid of Shari'ah*, precisely the protection of life, protection of wealth and protection of dignity.

*Maqasid shariah* is the basis of all human actions and activities. *Maqasid shariah* which relies on al-Qur’an and al-Sunnah is the guideline and manifestation from deep understanding and awareness towards all devotional acts. *Maqasid Shari'ah* constitutes all the elements related to human nature (*fitrah*) through three classifications known as educating the individual (*Tahdhib al-Fard*), establishing justice (*Iqamah al-'Adl*) and Public Interest (*al-Maslahah*) (Rosly, 2010). It also stresses on the five main necessities of human (*Al-Dharuriyyat al-Khams*) namely as protection of life...
Fig. 4 Maqasid Shariah frameworks by Abu Zaharah and Al-Ghazali

Based on maqasid shariah principles adjudicated by Imam Abu Zaharah and Al-Ghazali (refer Fig. 4), Laldin and Furqani (2013) has then developed a framework of maqasid shariah in developing Islamic finance as per Fig. 5. By integrating both principles laid out by Abu Zaharah and Al-Ghazali, the framework focuses on objectives of Islamic banking and finance, and objectives of Islamic economics. The objectives are based on human to human and human to god relationship.

Abdullah and Furqani (2012) has also developed a framework of maqasid shariah in achieving the objectives of Takaful. The framework, as per Fig. 6, emphasizes on how the ends (maqasid) and means (wasail) could influence the outcome such as fair wealth circulation, justice and so on.
Methodology

The authors conducted a content analysis by using secondary data and past study. The sources used are previous studies and manuscripts on maqasid shariah, annual reports of selected Takaful operators, official statistics from Annual’s EY Global Takaful Insights and EY Global Insurance Outlook, mass media products such as Annual’s World Islamic Insurance Directory, Islamic Finance News and Middle East Insurance Review and web information from selected Takaful companies on standards and substandard risks in their respective auto Takaful products.

Discussion

The acquisition of market share has not necessarily translated to profitability that has been threatened not just by undifferentiated strategies but also by the lack of uniform regulations that will allow them to operate across different models (Muhaizam, 2013). According to Akhtar (2018), Ismail et al. (2017) and EY (2015), Takaful operators are looking at structural transformation around risk, pricing and cost efficiencies in striving for scale and profitability, and this measure affect the auto Takaful business as well. This statement is also supported by Ismail (2013).

Despite of rapid growth and strong performance, the profitability of Takaful industry has been threatened, especially in auto Takaful in Malaysia (Bank Negara Malaysia, 2014; EY, 2014). In the general sector, losses from the compulsory motor cover segment continued to pose a significant drag on overall claims and underwriting performance (Bank Negara Malaysia, 2014). Figure 7 illustrates the losing business of Takaful motor, particularly on act cover. Act cover refers to the compensation paid due to injury or death to third-party claimant (Bank Negara Malaysia, 2018).

This structural yet undifferentiated transformation towards achieving profitability has led many Takaful operators to strengthen their underwriting activities by carefully selecting standard and profit-contributing risks whilst declining adverse risks so-called substandard risks. According to Jaffer et al. (2010), Takaful operators would...
typically use the same underwriting approach as conventional insurers by pricing the contributions based on the key risk factors such as age and gender, and charging fully for substandard risks. This measure, however, is criticized although it could be observed as protecting shareholders’ investment, yet it is consequently perceived as refuting the utmost aim of Takaful that is to enable the participants to share the burden of any risks or misfortunes faced by any of the participants/policyholders.

As the profitability issue constantly changes the way Takaful operators perceive every risk (Fauzi & Rashid, 2016), it could raise a question on whether the Takaful operators had jeopardized the *maqasid shariah* principles in Takaful.

Takaful operators worldwide currently face profitability challenges whilst aiming for greater and rapid growth in their gross contribution, especially in auto-related Takaful in Saudi Arabia and Malaysia (Wan Daud, Remli, & Muhammad, 2013). They acted structurally according to regulations, yet, undifferentiated towards the profit threatening by strengthening their underwriting on undesired risks so-called non-standard risks (EY, 2015).

Although this act is aligned with the risk management measures, it contradicts with the spirit of Takaful and ultimately against the objectives of Shariah (*maqasid shariah*) (Jaffer, 2010) has highlighted on several underwriting issues in Takaful as follows:

a. Most underwriting practices are in line with conventional methodologies but different shariah opinions exist in dealing with selection issues and discrimination based on gender and medical evidence.

b. Most policy exclusions that typically exist in a conventional insurance policy have been adopted by Takaful operators. This includes a suicide clause (usually in the first year), self-inflicted injuries, AIDS or HIV exclusions, breaching civil law or criminal activities, influence of drugs or alcohol, etc. The question of whether underwriting is for risk selection or risk classification will become an issue.

c. Ex-gratia claims can theoretically only occur under Takaful with the consent of all the pool participants as this directly affects the surplus distribution of the pool.

To make it worst, Takaful operators decisively decline such adverse risks and refute to unify as a syndicate to cover them forcing the Muslim consumers to buy the

---

### Fig. 7  Malaysia’s Takaful motor claim ratio, the year 2009–2013

![Diagram of Malaysia’s Takaful motor claim ratio, 2009–2013](image-url)
insurance that is deemed prohibited by Islam. In Malaysia, it is reported that insurance companies are no longer willing to provide third-party motor insurance under their banner, thus sending their customers to the high-risk insurance pool instead (Swiss Re, 2012). At the same time, the Takaful industry in Malaysia yet to have a shariah compliant motor for the Malaysia Motor Takaful Pool (MMTP) to complement the conventional scheme currently available (PIAM, 2019).

Conclusion

Takaful operators in the current trend have been facing tremendous challenges in gaining profitability. To keep up in the run, the Takaful operators have come forward to offer very similar, in many cases same though, underwriting rules many of which are in serious criticism from a shariah perspective. On the scale of maqasid shariah, these underwriting rules often do not fulfil any or many of the maqasid, hence itself creates a harm (mafsadah) and prevents from upholding the maqasid as those are. For instance, with the intrusion of mafsadah transaction, it creates a clear barrier on the way to fulfilment of the objective of protecting religion, as well as property. Similarly, in many cases, the contribution paid by non-compliance business, are not appropriate from the stance of maqasid shariah, and hence are approved at the cost of stakeholder’s losses. Obviously, shariah does not promote development for the cost of human lives, and hardship in living.

As mentioned earlier, about the underwriting rules, shariah has also come up with solutions and alternatives. It is also true that the Takaful operators are financial institutions, which are primarily aimed at making money; hence they try to make money from every opportunity available. As a result, the contracts based strict underwriting rules, the mudharabah and the wakalah, have declined in almost negligible form. This, in fact, requires a renewed understanding of the Islamic Economics and its objectives.

Therefore, there is a gap on research on the impact of maqasid shariah on auto Takaful underwriter as various literatures only focused either on maqasid shariah and Islamic Finance as a general (Rosly, 2010; Laldin & Furqani, 2013) or on family Takaful (Htay, Jawahir, & Salman, 2013). Thus, it is worth to study how maqasid shariah could influence Takaful operators’ conduct in mitigating underwriting risks.

References


Is Hajiyat Still the Basis for Takaful Operators to Resort to Conventional Re-insurance? An Appraisal on Malaysian Takaful Industry

Hartini Ab. Ghani, Salman Lambak, Md. Faruk Abdullah and Zunaidah Sulong

Abstract This paper aims at exploring the concept of hajiyat in re-takaful or Islamic re-insurance in Malaysia pertaining to the dynamic development of the Takaful and re-takaful industry which is gaining its momentum all around the world. The shariah-compliant insurance embedded with shariah principles emerged as the solution for the Muslims who have been avoiding conventional insurance as it is haram (unlawful). In view of the technical similarities of Takaful and conventional insurance, Takaful operators need re-insurance facilities. The Takaful operators in Malaysia need to depend on re-takaful operators to ensure the continuity of the Takaful operators in the long term by sharing the risk with re-takaful operators. The lack of re-takaful operators in the market left Takaful operators with the dilemma of having reinsuring with conventional re-insurance in order to meet the market demands. The shariah supervisory council (SAC) of Bank Negara Malaysia, the Central Bank of Malaysia has given a temporary dispensation to Takaful operators to reinsure with conventional re-insurance. However, it is a question that whether after more than 20 years of establishment the temporary dispensation is still applicable. The arrangement of Takaful operators with the conventional re-insurance is based on the principle of hajiyat. It needs to revisit whether temporary dispensation is still applicable to the increasing number of licenses issued by the Central Bank of Malaysia to companies to operate re-takaful business. Therefore, the objective of the paper is analysing whether hajiyat still holds some ground in re-takaful

Keywords Re-takaful · Re-insurance · Hajiyat · Takaful · Malaysia

H. Ab. Ghani (✉) · S. Lambak · Md. F. Abdullah · Z. Sulong
Faculty of Economics and Management Sciences, Universiti Sultan Zainal Abidin, Kuala Terengganu, Terengganu, Malaysia
e-mail: hartinighani@unisza.edu.my

Z. Sulong
e-mail: zunaidah@unisza.edu.my

© Springer Nature Singapore Pte Ltd. 2019
Introduction

Re-insurance is the transferring by the primary insurer, called the ceding company, a part of the risk it assumes to another company, called the reinsurer (Ab Rahman, Wan Ahmad, & Buang, 2011). Re-insurance can simply be defined as the insuring again by an insurance company (Edward et al., 2014, p. 136) of which the risk by the policyholders is insured again by the insurer. In other words, re-insurance is actually the insurance for an insurance company. Re-insurance in Islamic principles is known as re-takaful. The reason for its introduction is similar to the Takaful scheme, which is to introduce an acceptable alternative to re-insurance from the Islamic point of view.

Re-takaful is defined by Sula (2004) as a mutual process between a bear cession (ceding company) or Takaful operator with reinsurer (reinsurer or re-takaful operator), where there is mutual consent process (mutually agree) risks and requirements. IBFIM (2009, p. 102) described the meaning of re-takaful as one of risk management tools used by the Takaful operator to share part of the risk in the fund to the Takaful operator or other re-takaful operators. Takaful operator that processing re-takaful mechanism of risk in a given time, whether in part or whole to re-takaful operators to share the loss suffered by Takaful operators at a time by using the conditions in line with the principles of shariah. Re-takaful enhances Takaful activity by distributing the risks. It is mainly for covering common loss. It also ensures that Takaful funds manage to meet the indemnity obligations of the insured and operations (Billah, 2007).

Re-takaful protects a primary Takaful operator against unanticipated or extraordinary losses. Re-takaful assists the Takaful operators in managing their risk by increasing their capacity in handling the Takaful transaction and contract. By reinsuring with re-takaful, the Takaful operator can share their risk with other operators or companies (Engku Ali, Odierno, & Ismail, 2008). Hence, Takaful operators are without a doubt need re-insurance facilities which in the case of takaful, it must be provided by re-takaful companies which is said to be shariah compliant.

However, in the early stage of Takaful business transaction took place, re-insurance facilities for Takaful operators were dominantly provided by conventional re-insurance companies which operations contradict with shariah requirements (Ab Rahman, 2009). The utilisation of re-insurance was dictated by the lack of re-takaful capacity and the necessity to protect the policyholders and shareholders’ fund (El-Gamal, 2006). This practice continues to be permitted by some shariah scholars due to non-availability or very limited Re-takaful operators to fulfil the functions of re-insurance. Hence, this article will discuss whether hajiyat concept is still can be a basis for Takaful operators to reinsure with conventional re-insurance companies in their business undertakings in this decade.
Literature Review

Hajiyat (Doctrine of Needs)

According to Nu et al. (2014), alike all aspects of Islam, re-takaful also takes its fundamental structure from shariah (or the divine law). Shariah is derived directly from the Quran, the holy book and the Sunnah, the teachings and practices of the holy prophet, Mohammad. These two together form a basis of all aspects of human life.

The objective of shariah, like the purpose of any law in the world, is the promotion of human welfare. In this regard, shariah law is not at all different from conventional law as it intends to protect public health, safety and morals, and to advance general welfare including protection of people’s fundamental rights and basic liberties.

Many jurists have explicated on the purpose and objectives of shariah, called maqasid shariah. Two popular and widely accepted viewpoints are by Ghazali and by Shatibi (Akram Laldin & Furqani 2013). According to Ghazali, the ultimate objective of shariah is to promote human welfare which encompasses safeguarding of faith, life, lineage, intellect and property. Shatibi expounds that the maqasid shariah comprises of those benefits for which God revealed shariah in the first place. Like Ghazali, Shatibi also believes that the objective of shariah is to bring welfare to the people in this life and the afterlife. As highlighted by Awang, Asutay, and Azman Jusoh (2014), Shatibi classifies the objectives of Shariah as encompassing towards daruriyat (necessities), hajiyat (needs or requirements), and tahsiniyat (embellishment or enrichment).

The daruriyat are those necessities, which are essential for the establishment of welfare in this world. If they are ignored, order and coherence cannot be established resulting in fasad (chaos and disorder). Shatibi classifies all five of the Ghazali’s objectives regarding safeguarding human welfare under daruriyat (or necessities). Hajiyat are those goods and services, which facilitate life or remove hardship. Tahsiniyat are enrichment or beautification of life. While having enough food to subsist living falls under necessities (daruriyat), having ample nutritious food falls under needs (hajiyat) and having delicious, gourmet food falls under enrichment (tahsiniyat). According to scholars, shariah not only puts comfort into human life but also beautifies it.

Hajiyat is a need, without which may cause hardship such as a difficulty of life or damage to property. The use of this principle is subject to certain conditions. The permission to use reinsurers is effective only when there is no practical shariah compliant alternative or their capabilities are limited. The situation also includes when the financial capacity of the existing Takaful operators is inadequate to meet all their losses based on the views of the experts in the insurance industry. The availability of re-insurance arrangements and their capacity are important to the overall rating assessment. While there are over 250 Takaful operators in the world today, the number of re-takaful operators does not match with this number in proportionate acceptable ratio. The scarcity of Islamic-compliant reinsurers could have implications in the...
Takaful operators’ financial strength ratings. The scarcity of re-takaful operators exposes a Takaful operator to the concentration of related risks, or where adequate treaty limits may not be available, this either restricts the size of business that may be written or forces the company to retain greater risk on the net account (Hasan, 2011).

As we know the participants in insurance pay contribution which is then passed by shariah-compliant insurance to the conventional reinsurers. The funds of the Islamic investment product and those of the financial institution in which shariah provisions are not observed must be completely segregated. Even if the re-insurance is placed with conventional re-insurance as a ‘doctrine of need, the funds of investors who are very diligent and anxious to earn income from only according to shariah should not be mingled with those of conventional investors who are not observant of the shariah. Yaquby (2009) raised a very important point. He said that conventional financial institution’s Articles of Association’ do no mandate compliance with the tenets of shariah re-insurance window, or fund that often claims their transactions and dealing fully complying with the provisions of the shariah. But when subjected to scrutiny and examination, this proved otherwise.

Shariah-compliant insurance companies are required to reinsure their risks with shariah-compliant reinsurer for instance on re-Takaful basis. According to the Islamic Banking and Insurance Encyclopaedia (IIBI, London 1998) due to the merger of re-insurance capacity of re-takaful operators, latitude has been granted by shariah advisors to cede primary Takaful premiums to conventional re-insurers. Such dispensation is understood to be for a temporary period and lay down the challenge to Takaful and Re-takaful operators alike to work towards for a swift resolution of these anomalies.

As mentioned in the previous section, the lack of Takaful operators in the market has positioned the Takaful operators in a dilemma of having to reinsure on a conventional basis, contrary to the customer’s preference of seeking cover on shariah principles. The shariah scholars have allowed dispensation to Takaful operators to reinsure on a conventional basis so long as there was no re-takaful alternative available. Takaful operators, therefore, actively promote co-insurance. A number of large conventional re-insurance companies from Muslim countries take on retrocession, but still there is a lack of capacity within the Takaful industry worldwide. The Takaful operators should not purchase re-insurance form companies that are not shariah compliant and actions should be taken to establish companies that could provide adequate re-takaful capacity.
Discussion

Current Practices of Re-takaful in Malaysia

Conventional insurance companies in Malaysia do not face any problem ceding the insurance business as there are many re-insurances companies locally and internationally. This situation is in contrast to Takaful operators. The Takaful operators are facing difficulties in ceding out their Takaful business particularly the risks that require high capacity. The interview conducted by the authors with the authority; Malaysian National Re-insurance Berhad has supported this statement. Although, Islamic Financial Services Act 2013 has been gazetted as an act to provide guidelines for the regulation and supervision of Islamic financial institutions, it still does not solve the issues on re-takaful.

In the case of Malaysia, this situation is worst due to fewer numbers of Takaful operators and the limited size of their funds. It was further explained by Yusof (2006), as a result of the limited funds and the Takaful operators had to pay to the participants when they made claims for their losses, they have to seek the re-insurance protection for additional capacity. Furthermore, there are limited of ‘A’ rated Re-takaful operators that are capitalised to the levels required by the Central Bank of Malaysia. As such, Takaful operators had reinsured with conventional insurance and conventional re-insurance companies. The legal basis for adopting such could be summarised in a doctrine of hajiyat (need) later deducing an Islamic legal maxim which says in Arabic al-masyaqah tajlib al-taysir or hards beget facility.

Permissible View of Muslims Scholars

The general idea of Takaful adopts the concept of ’Aqilah during the Prophet’s (s.a.w) time. ’Aqilah is nothing but payment of blood money or diyyah under the Arab tribal custom (Engku Ali et al., 2008). During the ancient periods, Arab tribes followed a practice called ’Aqilah. For example, if an associate of the tribes was murdered by a member of another tribe, the heir of the victim would be paid an amount of blood money as indemnity by the close kin of the murderer. Those close kin of the killer known as ’Aqilah and they are supposed to pay blood money.

The practice of ’Aqilah during the early Arab tribes shows the evidence of the arrangement of financial contribution on behalf of the murderer to pay indemnity to the heir of the victim. Such willingness is to create monetary contribution that should be equivalent to the premium in insurance practice. On the other hand, the compensation re-cooped under at ’Aqilah should be equivalent to the compensation of present insurance practices as it is a type of financial security for the heir against an unpredictable death of the prey or victim.
Shariah Advisory Council has resolved the re-takaful matters in 2005 as per the following:

i. A Takaful operator is not allowed to accept inward re-takaful whether on treaty or facultative basis from a conventional insurance company and re-insurance company; and

ii. A Takaful operator is given the flexibility to distribute its risks based on outward re-takaful to conventional insurance company and re-insurance company subject to the following conditions:

   a. Priority shall be given to a Takaful operator and re-takaful operator;
   b. Non-existence of a Takaful operator and re-takaful operator, either locally or internationally, that is viewed as capable to absorb the distributed risks; and
   c. The strength of the Takaful operator and re-takaful operator, either locally or internationally, is doubtful.

The basis of the above rulings are outlined below:

i. The initial contract concluded by a conventional insurance company and a re-insurance company is inconsistent with the shariah;

ii. If a Takaful operator or a re-takaful operator accept inward re-takaful from a conventional insurance company or re-insurance company, the Takaful operator is perceived to recognise the conventional insurance contract which is not shariah compliant;

iii. Islam does not allow mutual helping and assisting in matters that are forbidden by shariah as stated in the following verse of Allah SWT:

\[
\text{وَتَعَاوَنُواْ عَلَى الْبِهِجَةِ وَالْبَشْرَى وَلَا تَعَاوَنُواْ عَلَى الْكَفُّةِ وَالْكَذِّبِ}
\]

‘…help one another in furthering virtue and God consciousness, and not in what is wicked and sinful...’ (al-Maidah: 2)

iv. A Takaful operator shall avoid from any involvement in syubhah matters which are practised in the conventional insurance activities.

However, a Takaful operator is allowed to distribute its risks via outward re-takaful to a conventional insurance company and a re-insurance company on the basis of needs (hajjah), that is, in case there is no Takaful operator or re-takaful operator that is viewed as capable to absorb certain Takaful risks. This is in line with the following fiqh maxim:

\[
\text{الحَاجَةُ تَنَزِّل مَزَلَّةَ الْضَّرْوَةُ}
\]

“Needs take the rule of necessities”

Qardhawi (2008) stated that prioritising darura (necessities) over hajjiyat (needs) and tahsiniyyat (embellishment) is utmost important, and this is applied in the case of re-takaful to insurance companies due to difficulties in ceding capacity to other Takaful operators.
Conclusions

Shariah-compliant insurance companies are required to reinsure their risks with shariah-compliant reinsurer for instance on re-takaful basis. However, Takaful operators are granted to cede their risks to insurance companies in the event of capacity deficiency provided the capacity of all Takaful operators has been exhausted. This practice is still pertinent in Malaysian market due to limited numbers of re-takaful operators. There are only four general takaful and four re-takaful operators (Central Bank of Malaysia, 2017). As such, hajiyat concept is still considered as dispensable.

References

A Critical Analysis of Zakat and Waqf in Sustaining the Development and Survival of Pondok Institution in Kedah

Rahayati Ahmad, Siti Hafsha Albasri, Syahiza Arsad and Roshima Said

Abstract  In Malaysia, there is an increasing awareness in Zakat and Waqf among the Muslims community in Kedah. There is no doubt that Zakat and Waqf had contributed a lot in the development of Islamic education among the Muslim communities especially in Pondok institution which has grown drastically nowadays. Nonprofit Organization (NGO) in Kedah is seen to be the main contributor of Zakat and Waqf to support and sustain the financial development of the Muslim community in Islamic education and other various socioeconomics projects. Due to such a scenario, the development of the Zakat and Waqf for education in Pondok Institution in Kedah needs to be monitored to maintain the good practice and governance to ensure this institution will develop and survive in the future. The significance of this research is to examine the effect of zakat and waqf contributed by Nonprofit Organization (NGO) in the establishment the survival of Pondok institution in Kedah. This empirical study includes data collection of 100 Nonprofit Organization (NGO), who actively provide zakat and waqf to the Pondok institution in Kedah. A Pondok Development and Performance Framework will be developed based on the previous study and expert opinion from Majlis Agama Islam, Jakim and NGOs to identify the important element in measuring the performance, sustainability, and survival of Pondok in Kedah. This field studies would provide additional information for the government and public to value the Pondok education and hopefully the roles played by the NGO in managing the zakat and waqf for the development of Pondok institution in Kedah will improve and enhance the development of Islamic education system for the Muslim society into a higher level and respectful way.
Keywords  Pondok · NGO · Performance · Sustainability · Survivability

Introduction

There are 242 Pondok institutions in Malaysia registered under Yayasan Pembangunan Pondok Malaysia (YPPM) and Kedah was the second highest number of Pondok institution in Malaysia with totally 61 Pondok institutions registered under YPPM. This shows that Kedah also one of the regions that grabbed the opportunities to make Pondok institution as a popular Islamic education in the region after Kelantan. This drastic growth in the number of Pondok institutions in Kedah creating a positive impact on the development of Islamic education hub for new and young Muslim generation to became “Tahfiz” or Ulama in the future. The Pondok institution sustainability and survivability in Kedah is seemed to be taken care of by the NGO but not seriously monitored by any government department or ministry in Kedah.

Problem Statement

Pondok is known as traditional education in Malaya since colonial period. This traditional education or Pondok was explicitly imparted at surau, masjid or in the home of the ‘Imam’. Arabic and Al-Quran were the main syllabus through traditional learning for more than a decade. Now Pondok institutions are moving forward into a modern rational institution (Ozay, 2011) for Muslim to learn and study Islamic knowledge. Nowadays we can see that Pondok institution is incorporated everywhere and became popular Islamic education in Kedah. Some Pondoks started in a small masjid and within 5 years developed into a huge Pondok institution later on. The development of the Pondok institution was influenced by the roles played by the Non-Profit Organization. Based on the previous study done by Karnaen (2013) from Indonesia, most of the small Pondok institutions were sponsored by the generous nonprofit organization (NGO), who are willing to get fund from the collection of zakat and waqf to develop and sustain the survival of Pondok institutions in Indonesia. In Kedah, the same scenario happened and the Muslims started to give attention to Pondok education especially the Muslim NGO who actively contributed to the zakat and waqf to the development of Pondok in Kedah such as Yayasan YaPEIM, YADIM, PERKIM, etc. Yayasan YaPEIM, YADIM, PERKIM, etc. Majlis Agama Islam Kedah only helps to provide some fund to selected Pondok institutions if they required or apply directly from Zakat Department in terms of sadaqah, zakat, and waqf. Some of the small underdeveloped independent Pondok institution in Kedah such as in Sik, Kuala Ketil, Parit Panjang, and Baling just hoping from individual Muslims and NGOs who provide sadaqah and zakat consistently, to keep them survived. There are some of them used the “Tahfiz” students to sells product to generate income for the Pondok as what happened to Pusat Tahfiz Amal at Kuala Kedah (Suzalina, 2016).
How far the roles played by the NGO toward the development of Pondok in Kedah needs to be analyzed critically in order to ensure the contribution provided in terms of zakat and waqf were really benefitting to the development of Pondok and are able to produce a quality of “tahfiz” students in the future so that their well-being was taken care of without being manipulated by their school management who work as street sell men at a young age.

Government Audit Report 2010 found that Pondok institutions did not achieve their main objective of delivering Islamic Education. The main weaknesses reported were related to the declining of students performance and financial problem faced by the Pondok management and supported by Husin et al. (2012), who stated that the Pondok in Malaysia lack facilities, financial problem and underdeveloped.

The roles of zakat known as Islamic religious tax are an important mechanism for the development as well as strengthen the economic independence of the Muslim community. Waqf, on the other hand, is considered as a perpetual charity in the form of fixed property, land and building, cash money or other assets can generate philanthropic activities providing a source of development for the country providing Islamic education and infrastructural facilities (Jalil, 2006). The combination of both Zakat and Waqf were the main reason why the small Pondok institution can sustain and survive in Kedah. There is no doubt that there were some Pondok institutions in Kedah that were successful in providing good facilities, experienced teachers or “Ustazs”, serve healthy food, guarded and well-organized management but there are also some of the Pondoks which were underdeveloped which sometimes create an unsafe environment to the students. The development of Pondoks are not only relied on the financial sources only but also other aspects such as infrastructure and facilities provided, quality of human capital development and effectiveness of Pondok governance systems (Jalil, 2006). Pondok Pesantren can be the benchmark of being a well-developed Pondok in Indonesia since 2008 until now. They successfully implemented the four important elements as mentioned above to improve their strength and until now Pondok Pesantren manages to occupy 4 million students with 20 Pondoks. To be a well-developed Pondok institution, they need to transform from the old system of Pondok management into a new standard of management. There is a need for an effective monitoring tool that will measure the sustainability and survivability of Pondok institution in Kedah. The developed on Sustainability and Survivability Framework in this study will identify the real situation and problem faced by the Pondok institution in Kedah so that preventive action will be taken by the NGO and Majlis Agama Islam to keep the survivability of undeveloped Pondoks, besides sustaining the well-developed Pondok, based on four important elements discussed earlier which is infrastructure and facilities provided, quality of human capital development and effectiveness of Pondok governance system. For the future, this study will provide useful information to Kedah government on the level of Pondok institution education and will be a standard monitoring tool or framework that will help them to monitor annually the Pondok institution so that this Pondok institution will continuously produce a high-quality Islamic education for the benefit of the Ummah.
**Research Objective**

There are three research questions raised by the problems discussed above: The main objective of this study is

1. To examine the level or trend of zakat and waqf distribution by nonprofit organization (NGO) to Pondok institution over 5 years from 2014 to 2018.
2. To identify the relationship between the amount of zakat and waqf contribution by the NGO on the Pondok Development and Performance Framework of Pondok institution in Kedah.
3. To examine the growing number of NGO in Kedah influence the relationship between the amount of zakat and waqf received and the Pondok Development and Performance Framework.
4. To determine the status of Pondok institution survival in Kedah.

**Literature Review**

Sekolah Pondok is known as a religious-based education prior to British colonial rule in the nineteenth century (Ozay, 2011). This Pondok institution was enormously popular among Muslims especially in Pattani, Kelantan, Terengganu, and Kedah (Afifah, 2013). The Muslim scholar or imam is the teachers who teaches Arabic and Quranic through traditional learning of reading and memorizing Al-Quran besides learning the Malay moral, cultural, and Malay literature. The history of Pondok in Malaysia started before the British colonial. The mosque, madrasah, or surau or even in form of a small house successions or huts were used by the religious teachers who just completed their Islamic study in Mecca to deliver formal Islamic knowledge to the communities around the area. The textbook or Al-Quran are bought from Mekah by traders and people who went for Hajj in Mekah. The Pondok system started to become popular in the early nineteenth century (Nor, Ibrahim, Yusof, Zakaria, & Ramli, 2012) such as in Kelantan. The expansion of Pondok institutions were influenced by the generosity of Muslim people providing funds in term of zakat, sadaqah, and waqf.

The well-established Pondok institution in Indonesia was funded by several NGOs who consistently provided the fund for the development of the Pondok like Pesantren al Muatyyad Windan and Pesantren Al-Mukmin in Ngruk (Pohl, 2006) in Indonesia. Zakat and Waqf is the pillar or tool that strengthens the function of Pondok. Afifah (2013) stated that waqf education had helped to generate huge funds for the Pondok to expand their existent Pondok to a huge institution or become a well systematic Pondok in the future. Waqf can be in terms of cash or properties. Zakat and Waqf are the agents for the Pondok development and also a medium to draw Muslims close to Allah and gain Allah’s blessing in after world in Jannah. Al Bararah 2:261–262 reminds people the benefits of spending wealth in the way of Allah. In the past, the existence of Pondok institution in the past were supported by individual such as the imam,
A Critical Analysis of Zakat and Waqf in Sustaining … 219

DEPENDEND VARIABLES

Zakat
Waqf-Wealth
Waqf-Cash

INDEPENDEND VARIABLES

PONDOK DEVELOPMENT & PERFORMANCE
- Financial Management
- Human Capital
- Governances
- Facilities

CONTROL VARIABLES

Gender
Age
Number of Students
Number of Pondok

Fig. 1 Conceptual Framework

dahwah group, or by several tabligh groups who manage to collect the fund from the public to support the expenditure and facilities to the students to learn the Al-Quran and the Sunnah. But, now the zakat and the Waqf were systematically administered by the NGOs such as Yayasan Waqf Malaysia, ABIM, and others NGOs. Therefore, this study will critically analyze the roles of Zakat and Waqf in sustaining the development and survival of Pondok institution in Kedah.

The Conceptual Framework of the Study

Based on the past literature, the following conceptual framework was developed in Fig. 1.

Statement of Hypothesis

The development of Pondok institution in Indonesia was influenced by the growing number of students receiving the zakat for Islamic education in Indonesia (Pohl, 2006). With the continuous support by NGO for the development and sustainability of Islamic education in Kedah, it can be hypotheses that:

H1a: There is a positive relationship between the amount of zakat received and the Pondok Development and Performance Framework
H1b: There is a positive relationship between the amount of waqf received and the Pondok Development and Performance Framework

Based on the study done by Pohl (2006), the development and sustainability of Pondok Institution (Pesantren) in Indonesia is influenced by the growing number of Muslim NGO that actively fund the zakat and waqf for modernizing the Islamic education in Indonesia. Based on the study done by this literature, the three hypotheses were developed:
H2a: The increase in numbers of NGO in Malaysia have a positive relationship with Pondok Development and Performance Framework
H2b: The growing number of NGO in Malaysia will strengthen the relationship between the amount of zakat received and the Pondok Development and Performance Framework
H2c: The growing number of NGO in Malaysia will strengthen the relationship between the amount of waqf received and the Pondok Development and Performance Framework

Research Methodology

This study uses the financial data, i.e., zakat and waqf from 60 NGOs which actively distribute the zakat and waqf to 60 selected Pondok Institutions in Kedah from 2014 to 2018, i.e., a period of 5 consecutive years. A field study will be implemented in this research to analyze the development, sustainability, and survival of the 60 selected Pondok institutions in Kedah using a standard Pondok development and performance framework created in past theoretical framework generated by the past researchers. The framework will be discussed and verified by several Syariah and professional people in the related field. The data will be analyzed in descriptive statistics analysis, correlation analysis, and regression analysis to obtain the result in identifying the influence of zakat and waqf toward the sustainability and survival of Pondok institution performance in Kedah using SPSS statistics software (Nancy, Karen, & George, 2005) (Table 1).

Table 1 Measurement of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Symbols</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variables</td>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial management</td>
<td>FM</td>
</tr>
<tr>
<td></td>
<td>Human capital</td>
<td>HC</td>
</tr>
<tr>
<td></td>
<td>Governance</td>
<td>GV</td>
</tr>
<tr>
<td></td>
<td>Facilities</td>
<td>FC</td>
</tr>
<tr>
<td>Independent variables</td>
<td>Zakat</td>
<td>ZK</td>
</tr>
<tr>
<td></td>
<td>Average of Zakat received for over 5 years</td>
<td></td>
</tr>
<tr>
<td>Independent variables</td>
<td>Waqf</td>
<td>WQ</td>
</tr>
<tr>
<td></td>
<td>Average of Waqf received for over 5 years</td>
<td></td>
</tr>
<tr>
<td>Control variables</td>
<td>Gender</td>
<td>GN</td>
</tr>
<tr>
<td></td>
<td>Male and Female</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>AGE</td>
</tr>
<tr>
<td></td>
<td>Age of the students</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Students</td>
<td>STD</td>
</tr>
<tr>
<td></td>
<td>Average number of students over 5 years</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pondok institution</td>
<td>PON</td>
</tr>
<tr>
<td></td>
<td>Number of Pondok institution</td>
<td></td>
</tr>
</tbody>
</table>

hajarsalwa@gmail.com
Conclusion

Islamic Education is indirectly becoming a part of Malaysian education systems nowadays, especially in Kedah. This Pondok institution gains a lot of fund from an individual, NGOs, government and private companies but the question is, are the funds managed properly for the development of Pondok?. Do the person in charge capable of ensuring the four important elements; the Financial management Matters, Governance Matters, Facilities Matters, and Human Capital Matter are well achieved to ensure their sustainability and survival in the future. A well-managed Pondok institution required the person in charge to be well knowledgeable in all aspects of management area to achieve sustainability and survival of Pondok Management, especially in Kedah so that this study will portray the real situation of sustainability and survival of Pondok institution in Kedah. We hope this study will help the Kedah government to upgrade the level of Pondok education in Kedah for a new generation of quality Khalifahs in the future. A new framework to measure performance of Pondok Institution will be develop as a benchmark for other researches and government agency to be used as a key performance indicator for Pondok development and providing reference materials for the rulers, public, private, and other nonprofit organizations to continuously support the expansion of Pondok education in Kedah for the benefit of Ummah as a whole.

References

Part V
Fiqh and Legal Framework
The Fiqh Method in Islamic Social Entrepreneurship: An Introduction

Mohd Adib Abd Muin, Shuhairimi Abdullah and Azizah Che Omar

Abstract Islamic social entrepreneurship is an alternative to Western social entrepreneurship. This is because Islamic social entrepreneurship is based on the guidance of the Quran and as-Sunnah. The fiqh method is the method used by the ulama of mujtahid and fatwa in order to solve problems which are not mentioned in the Qur’anic and As-Sunnah verses for the new problems. There are five common methods of fiqh being discussed that each item is assessed on the basis of intentions, confidence is not lost with doubt, difficulty in bringing convenience, danger must be eliminated and custom made law. All five common fiqh methods are discussed in this paper to enable social entrepreneurs to pursue holistic social entrepreneurship. The research methodology is based on library research and content analysis based on past studies, fiqh scholars and references to the Qur’anic and As-Sunnah texts. The findings show that all these fiqh methods can be used as a guide to apply the concept of Islamic social entrepreneurship among social entrepreneurs in Malaysia. Therefore, scientific research will be thoroughly screened in this paper.

Keyword Fiqh methods · Islamic social entrepreneurship (ISE)

M. A. Abd Muin (✉)  
Pusat Pengajian Perniagaan Islam (IBS), Universiti Utara Malaysia (UUM), 06010 Sintok, Kedah, Malaysia  
e-mail: mohdadib@uum.edu.my

S. Abdullah  
Pusat Pengajian Pembangunan Insan & Teknokomunikasi, Universiti Malaysia Perlis (UniMAP), 02600 Jejawi, Arau, Perlis, Malaysia  
e-mail: shuhairimi@unimap.edu.my

A. Che Omar  
Pusat Pengajian Teknologi Multimedia & Komunikasi (SMMTC), Universiti Utara Malaysia (UUM), 06010 Sintok, Kedah, Malaysia  
e-mail: co.azizah@uum.edu.my

© Springer Nature Singapore Pte Ltd. 2019
N. Z. M. Sidek et al. (eds.), Islamic Development Management,  
https://doi.org/10.1007/978-981-13-7584-2_18

hajarsalwa@gmail.com
Introduction

Islamic social entrepreneurship (ISE) is one of the branches of muamalat in improving the economy of the ummah. ISE is also a social-oriented entrepreneurial activity based on the major sources of law namely the Qur’an and as-Sunnah. The Qur’anic teachings relate to KSI which is explained by Allah SWT which means as follows: “Comparisons (donations) those who spend their wealth in the path of Allah SWT, are just like a seed that grows to produce seven stems; each of the stems contains a hundred seeds. And (remember), Allah SWT will multiply reward for whom He wills, and Allah SWT is All-Bounty, His Bounty comprehensible” (al-Baqarah, 2: 261).

According to the interpretation of Ibn Kathir (1301–1373), the parable given by Allah SWT on the multiplication of the reward for those who spend their wealth in the path of Allah SWT with the aim of seeking the pleasure of Allah SWT and that virtue multiplied from ten to seven hundred folds. Imam Ahmad also narrated from Abu Hurairah r., He narrated that the Messenger of Allah (peace be upon him) said: “Every deed of Adam’s son will be multiplied, one good will be multiplied by ten to seven hundred times or more, according to the will of Allah SWT. Allah SWT says: ‘Except for fasting, because it is for me and I will reward him. He left food and drink for me. ‘And the man fasting has two blisses, happiness when breaking and bliss when meeting with his Rabb. And the smell of fasting people is more fragrant in the sight of Allah SWT than the smell of musk oil. Fasting is a shield, the fasting is a shield’” (Thus, the hadith narrated by the Imam Muslim in his book).

The allegations of social entrepreneurship related to ISE have been explained by Allah SWT which means: “And let there be among you a group who invites (to preach) to virtue (development of Islam), and to do good things, and forbid than anything wrong (bad and vile). And those who are such are the successful ones” (al-Imran, 3: 104). According to the interpretation of Ibn Kathir (1301–1373), Allah SWT says: “And among you there are a group of people who call on virtue, calling to the good and forbidding the evil. They are the lucky ones. “Abu Ja’far al-Sair said the Prophet had read the verse which means:” And of you a group of people who call on virtue “Then he said: ” The virtue is following the Qur’an ‘an and my Sunnah. “(Hadith narrated by Ibn Mar-Dawaih). As stated in the Sahih Muslim, from Abu Hurairah, he said, the Messenger of Allah (peace be upon him) said: “Whosoever sees evil, let him change his hands if he cannot, then let him change his or her tongue and if not able, he changed his heart and that is the weakest of faith. “(Hadith narrated by Imam Muslim, Chapter Faith, Hadith no 40).

Hence, it can be stated here that ISE is a nonprofit-oriented entrepreneurial activity because the main objective is to meet the social values of the community and to further enhance the spirit of Islam through social activities based on the teachings of the Qur’an and as-Sunnah to obtain the blessings and blessings of Allah SWT (Muin, 2017). The objective of this study is to look at the basic fiqh method in ISE activities. The specific objective is to elaborate some of the Qur’anic and As-Sunnah views as well as the scholars of the fiqh in order to guide the social entrepreneurs to carry out ISE activities holistically.
Literature Review

The fiqh method is a summarized principle that has been implemented by the syara’, but it is made by the view of the mujtahid scholars to facilitate the process of referring a problem that occurs in the field of fiqh to the principles of syara’. The fiqh method is not regarded as a proposition that will rule a law, but rather a decision made to produce a formula in a very thorough legislation against diverse fiqh law. In addition, it is used as a method to facilitate one to remember, examine, master, and understand the various jurisprudence laws (Ghuddah, 1992).

A. Definition of Fiqh Method

The meaning of the fiqh method in Arabic is *al-Qa’idah* which contains the basic meaning and everything that is based on something and its origin. The method is also a motion for something whether it can be seen and touched by the senses such as the foundation of the building or as the basis of religion achieved through thought. From the point of the term, the method is the law and the whole thing that is practiced against all the problems of its parts (as-Suyuti, 2016). Additionally, the method according to the term is also a comprehensive matter set or applicable to the entire fraction (al-Burnu, 1997). While the term of the method according to the Dewan Bahasa Pustaka and the Fourth Edition Dictionary means the way or rules that make something.

B. Definition of Fiqh

The fiqh word in terms of language is to understand, think of something and learn (Ibn Manzur, 1990). In the fiqh Arabic term means understanding, intelligence, wisdom, and wisdom (Ibrahim Mustafa, 1960). According to the term fiqh is to know the various laws of practical interpretation in the shari’a taken from the verses of the Qur’an and as-Sunnah in detail (al-Baydawi, t.t). Application of this fiqh method is a source of law that can explain the position of a situation committed by social entrepreneurs in ISE. Based on the fiqh method, there are five well-known basic methods and are widely used in most fiqh issues and agreed upon by the scholars of various fiqh school (as-Suyuti, 1983):

i. *Al-Umur bi Maqasidiha* (Each item is judged by the intention)

ii. *Al-Yaqin La Yuzalu Bi al-Shakk* (Confidence is not lost with doubt)

iii. *Al-Mashaqqah Tajlibu al-Taysir* (Difficult to bring convenience)

iv. *Al-Darar Yuzalu* (The danger must be eliminated)

v. *Al-Adah The Court* (Custom made law)

C. Islamic Social Entrepreneurship (ISE).

The concept of Islamic social entrepreneurship (ISE) is a concept based on Islamic perspective which is based on the major sources of Islamic law namely the Qur’an and as-Sunnah. The ISE outlined also refer to the journey of the living Prophet Muhammad (pbuh) when he migrated from Mecca to Medina and also the successes shown by his Prophet in highlighting the Arabs of the *Quraish* in Mecca. The
introduction of ISE is an alternative to Western social entrepreneurial practice that focuses solely on a world-based relationship, but is limited only in the context of meeting social needs alone. The purpose of this ISE is to achieve Islamic religious claims based on the concept of al-maqasid al-syariah and also fulfill the demands of the success and blessings of Allah SWT in the world and the hereafter (al-falah concept). The important thing in ISE’s objective is to preserve religion, life, intellect, heredity, and wealth. This is a demand on every social entrepreneur’s practice in making ISE an alternative practice to Western social entrepreneurship. ISE has also been one of the activities that contribute to the economic and social strengthening of the community as the purpose of this ISE activity is as follows (Muin, 2017):

i. To seek pleasure and blessings from Allah SWT.
ii. Makes the value and morals of Prophet Muhammad (pbuh) as a guide in carrying out charitable activities.
iii. Solve problems of usury, gharar, and maisir that are widespread by creating KSI activities as an alternative.
iv. Eradicate economic and social problems through direct involvement of social entrepreneurs.
v. Improve the value of society in life.
vi. Address the social problems of the youth especially youth.
vii. Enhances social relationships between society and the community.
viii. Stream resources of wealth and profit to the hard and needy people.
ix. Eliminate the greedy nature of seeking the treasure of the world.
x. Thank you for the blessings that Allah has bestowed on you.
xi. Enhancing Islamic symbolism and dignity through ISE activities in promoting the Islamic ummah by implementing comprehensive ISE concepts such as the concept of caliphate (khalifah), concept of brotherhood, concept of jihad economic, concept of justice and balance, concept of fulfilling community social needs, concept of building and increasing social value of giver, the concept of al-falah, the concept of enabling good and preventing evil (amar makruf wa nahi munkar), the concept of social security, the concept of improving the economy of the ummah, the concept of charity and the barakah, the concept of praying, prayer and always attending the mosque, and the concept of racing doing good.

This has been explained by Allah SWT in the holy book of the Qur’an how the ISE activity must be done in the right way based on Islamic law. The word of Allah SWT which means: “O you who believe, do not eat (your) wealth among yourselves in a way that is falsehood, gambling and so forth, except by way of business that is done in a way that likes between you” (al-Nisa ‘, 4:29) [14].

ISE is very different from existing social entrepreneurship through several aspects such as definitions, resources, implementation practices, and effects. ISE’s definition is more about the charity activities demanded in Islam and providing social security to all communities in order to continue living in a better and prosperous way. This
is in contrast to the definition of social entrepreneurship that has a vision and social mission that has constraints and obstacles.

In addition, ISE is based on the revelation of the Qur’an and as-Sunnah as well as the al-Maqasid al-Syariah approach in maintaining religion, life, intellect, heredity, and wealth, whereas existing social entrepreneurial resources are limited to social entrepreneurial activities solely. From the aspect of practice, ISE also adheres to the principle of halal and does not contradict the law of syara’. This is in contrast to existing social entrepreneurship that is likely to be involved with elements of riba, doubt (gharar), gambling (maisir), and materialistic.

From the aspect of the impression, ISE seeks the Hereafter as well as achieving the blessings and blessings of Allah SWT, promoting Islamic teachings, reducing society’s social problems and increasing the economy irrespective of religion, race, and race. On the contrary, existing social entrepreneurship only targets mission and social vision is achieved and influenced by the reward of return and respect for society. This is due to limitations and limitations in the world without taking into account the benefits of the future.

According to Ibrahim (2002), the concept of ISE offers two methods to help alleviate the burden, social problems, and reduce the poverty rate through the provision of charitable loans in the form of welfare loans and redistribution of property through business zakat, charity, charity, and charitable activities. Therefore, society should have a strong impetus and determination to venture into the field of ISE and eager to make things more harmonious.

In short, ISE is a hybrid and current approach that combines both business goals and social goals in a social initiative to help society in need of freedom from various social problems. However, social entrepreneurial approaches are more concerned with social profit goals than profits from financial aspects of any community development program they implement. Social entrepreneurship through business strategies and social activities is simply a medium to ensure entrepreneurship institutions have sufficient financial resources without having to rely on external sources to operate either from the aspects of the organization or for the development of community development programs to those in need (Muin, 2017).

Hence, the fiqh method in this paper is the use of fiqh methods as one of the sources of social entrepreneurship in carrying out ISE activities holistically based on the guidance of the Qur’an and as-Sunnah. Even social entrepreneurs can adopt this fiqh method as arguments and justifications in making decisions and implementing consistently and structurally without any hesitation.

Methodology

This study is based on the Islamic epistemological method, which refers to the source of the revelation of the Qur’an, as-Sunnah and Islamic scholars. The methods of Islamic research should be adopted when conducting studies on Islamic fields so that sources and findings are parallel and do not conflict with Islamic goals (Salleh,
This is because to ensure that each branch of the discussion is parallel and not missed. Library methods and content analyzes of past studies are also used to examine each content related to the discussion so that the findings can reflect the whole topic discussed.

Application of the Fiqh Method in Islamic Social Entrepreneurship

A. Al-Umurbi Maqasidiha (Each item is judged by the intention)

This first method means that an act is not counted as if it is not accompanied by intent. The intention of a person will determine whether something done is halal or illegal, valid or null. There are three main role roles (Ismail, 2005), which are given as follows:

i. Differentiate worship and custom
ii. Differentiate levels of fardu and circumcision
iii. Differentiating sincerity and riya‘.

Rules of First Fiqh

Among the arguments for this first method are as follows:

The words of Allah SWT which mean: “And their husbands deserve to refer to them in the waiting period, if they (the husbands) want it.” (Al-Baqarah, 2: 228). The way the pendulum is that Allah says that the right of a husband to refer to his wife depends on the intention of the husband. If he wants a peace (peace), the right is given to him, otherwise he intends to harm the wife, the right is not granted to him.

The word Rasulullah SAW which means: “Indeed the status of the act is dependent on its intentions. And everyone will only get (value) something (as) he intends. Whoever hijrah (based on intentions) to Allah SWT and His Messenger, then the (value) of the hijr is to Allah SWT and His Messenger. And whoever (the hijab) of his hijrah is to the world to which he is to be obtained, or to the woman to which he wishes to marry, then the (value) of his hijrah is to his exemptions. “(This Hadith is a well-known Sahih al-Sittah (the sixth Imam Bukhari, Muslim, Abu Daud, Tirmizi, Nasa‘I and Ibn Majah) and others from the hadith of Umar ibn al-Khattab) [12].

The Prophet (peace and blessings of Allaah be upon him) said: “Never give up a living for the sake of Allah’s forgiveness unless you will be rewarded, even if the food you put into your wife’s mouth.” (Hadith Sahih Bukhari from Sa‘d ibn Waqqas) Nasa‘I have the hadith from Abu Dzar as follows: “Whoever goes to bed, intending to perform night prayers, but to sleep until the morning, then what he diniat has been recorded for him.” (Narrated by Judge in al-Mustadrak 1/311), Ibn Majah (1344) and Nasa‘I (3/258) in their respective sunan).
In al-Mua’jam the work of Tabarani from the Shuhaib hadith, there is the following editorial which means: “Any man who marries a woman, then he intends not to give part of his dowry, then he will die on the day he dies, in a state of adultery. And any man who buys something from another man, then he intends not to give part of his purchase price, then he will die on the day he dies, as a treacherous person. “(Narrated by Tabarani in Mu’jam al-Kabir (8/41) and al-Saghir (1/43)).

There is also a hadith from Abu Umamah with editor which means: “Whoever takes the debt as it intends to pay it, then Allah will pay his debts later on the Day of Judgment (if in the world he will not be able to pay it). And whoever owes it as intending will not pay it, then dies, then on the Day of Resurrection Allah will say, ‘Do you think that I will not take the right of My servant? Then some of the goodness of the person is taken then (included) into the good of the other person. And when he does not have the good, then some of the other evil is taken, then put into it. “(Narrated by Tabarani in Mu’jam al-Kabir (8/290) and Baihaqi in Sunan al-Kubra (5/ 354).

Based on the arguments of the first method above, it is clear that an act that depends on the intention is so important. In the context of social entrepreneurs who carry out ISE activities holistically, it is necessary to put in good intentions and to seek only the pleasure of Allah SWT alone because this is a subject matter that must be embedded and embodied by entrepreneurs especially Muslim entrepreneurs.

Examples of the First Fiqh Method in ISE

Social entrepreneurs can also apply this method in some cases like (Muin et al. 2018):

i. Seek for the pleasure of Allah SWT solely for the blessings and piety of the world and the hereafter.
ii. Intend to help people who face social problems in order to be able to safeguard and safeguard their lives.
iii. Intend to help raise the economic level of the needy society by creating job opportunities, providing free training, offering educational scholarships and building public facilities in rural areas.
iv. Be intent on making entrepreneurship and business as a souvenir to draw closer to Allah SWT and make him the Prophet Muhammad as an example of the best of all time.
v. Intend to reduce the societal poverty rate through ISE activities based on the caliphate concept, the concept of brotherhood, the concept of economic jihad, the concept of justice and balance, the concept of fulfilling the social needs of the community, the concept of developing and enhancing the social value of the giver, the al-falah concept, the concept of asking for good and prevent social, concept of social security, concept of improving the economy of the ummah, the concept of zakat and waqf, the concept of alms and barakah, and the concept of always praying, prayer mosque, prayer and always attend the mosque.
B. Al-Yaqin la Yuzalu Bi al-Shakk (Confidence is not lost with doubts)

This second method is al-Yaqin la Yuzalu Bi al-Shakk (Confidence is not lost with doubt) which is a discussion of conviction, earnest belief, certainty, sincerity, and resentment. Fake is also defined as a sense of uncertainty and suspicion.

Rules of the Second Fiqh Method

Among the arguments of the Qur’an regarding the belief is as follows:

The word of Allah SWT which means: “And we say:” We killed the Messiah, the son of Mary, the Messenger of Allah, but they did not kill him nor crucify him, but they killed) the person who was loved by Jesus. Indeed, those who disputed about Jesus (murder) always in doubt about who was killed. They really do not know (who actually killed them but follow a conjecture, so they are not sure they killed him.) “(An-Nisa’, 4: 157).

The word of Allah SWT again means: “Soon afterwards (Hud-hud came), then he said:” I know something you do not know yet. I came to you from the land of Saba ‘with a convincing news. “(An-Naml, 27:22).

The word of Allah SWT explains that the Prophet (peace and blessings of Allaah be upon him) said: “And thus did We show Abraham the signs of the majesty in the heavens and the earth, and that he might be of those who believed.” (Al- An’am, 6:75). Also His words which means: “Allah SWT raises the heavens without pillars (as you see), then He sits on the Throne, and subdues the sun and the moon. Each one is circulated for a specified period of time. Allah SWT governs the affairs of His creatures, explaining His signs, so that you will believe in your meeting with your Lord.” (Ar-Ra’d, 13: 2).

His word further means: “And in the creation of you and on the living creatures of the scattered (on earth) there are signs (greatness of Allah SWT) for the people who are convinced.” (Al-Jathiyyah, 45: 4).

“If one of you doubts in his prayer, so do not know how much he or she is praying, three or four, then let him cast the doubt and rely on what he believes.” (Narrated by Imam Muslim in Sahih, the book al-Masajid (88), Ahmad in Musnad (3/72), Daruqutni in Sunan (1/375), Abdurrazaq in Musnad (3466), Tabarani in al-Saghir (1/37), Malik in Muwatta ‘(95) and Ibn Abi Syaibah in Musannaf (2/26).

“If one of you forgets in his prayer, so do not know (with certainty) he has prayed one or two rak’ahs, then gathered in one rak’ah. If he is not sure he has prayed two or three rak’ahs, then he gathers on two rak’ahs. And if he does not know (with certainty) he has prayed three or four rak’ahs, then gathered in three rak’ahs and let him prostrate twice before greeting”(Narrated by Imam Tirmizi in Sunan (398).
Examples of the Second Fiqh Method in ISE

Among the examples found under this second method are as follows:

i. If a social entrepreneur knows something illegal in his property, but is not clearly known to be part or part of the illegal part, then it is not forbidden for social entrepreneurs to continue their muamalat activities and to conduct ISE activities normally because confidence is not eliminated with uncertainty or doubt. According to Shaykh Abu Hamid al-Isfirayini, the man with a wealth of unlawful and unprofitable property acquired from his property is an illegal property, it is not illegal to sell transactions with him because of the possibility of halal and obscure obscurity. However, this is imperative, for fear of falling into the haram (as-Suyuti, 2016).

ii. Social entrepreneurs are likely to have doubts about the amount of offerings or offerings in muamalat particularly involved with ISE activities to Muslims and non-Muslims, so the social entrepreneurs are optimistic about the practice of ISE that will be rewarded with great reward in the sight of Allah SWT for doing things which is as good as it has been suggested in the Qur’an and as-Sunnah so that every believer and caution should ensure that always do things that can enhance faith, piety, and goodness to safeguard human relationships with Allah SWT and mankind fellow human beings.

C. Al-Mashaqqah Tajlibu al-Taysir (Difficult to bring convenience)

This third method generally involves the interpretation of the judicial law that is difficult to be implemented by the mukallaf (the person responsible for the duty and the order to carry out the law of the Islamic religion and to avoid his prohibitions) will be alleviated by the practice of Shariah. Not all difficulties are given relief, there are only a few difficulties allowed i.e., (Ismail, 2005):

i. The unavoidable difficulty in worship.

ii. The difficulties that can usually be avoided in worship such as great difficulty (involving loss of life, religion, intellect, heredity and wealth), minor difficulties and moderate difficulties.

The Muslim scholar says that from this third method has emerged all forms of rukhsah and takhff (relief) from Islamic law. It is important to note that the notifiable reasons in worship and the other are seven (as-Suyuti, 2016).

i. Safar (a journey that reaches a certain distance)

ii. Pain

iii. Forced

iv. Forget

v. Ignorance or do not know

vi. Unforgivable or stumbling in difficulties

vii. Disadvantages.
Rules of the Third Fiqh Method

Among the Qur’anic verses regarding this third method are the following: Allah SWT’s Word which means: “Allah SWT wants convenience for you and does not want any hardship for you.” (Al-Baqarah, 2: 185). His word again means: “We (Allah SWT) do not impose a burden upon a person but simply his ability.” (Al-An’am, 6: 152). Also, His Word which means: “And He will not make you in the dark a little.” (Al-Hajj, 22:78).

Prophet Muhammad (peace and blessings of Allaah be upon him), which means: “I am sent by the Shari’ah which tends to truth and tolerance.” (This Hadith was interpreted by Imam Ahmad in Musnad from the hadith of Jabir Ibn Abdillah, Abu Uwamah and al-Dailami). Rasulullah SAW again: “Asked: O Rasulullah SAW, which religion is most loved by Allah SWT? He replied: It is inclined to truth and tolerance.” (Narrated by Imam Ahmad in Musnad (1/236), Tabarani in al-Kabir (11/227), Abdurrazaq in Musannaf (20574) and Imam Bukhari in the chapter Khalq Af’al al-Ibad (287)).

Imam Bukhari, Muslim and others narrated the hadeeth from Abu Hurairah and others as follows: “You were sent as a convenient people, and not sent as difficult people.” (Narrated by Imam Bukhari, no hadith 220 and 6128). The Prophet (peace and blessings of Allaah be upon him) said: “Make it easy and do not persuade.” (Narrated by al-Bukhari, no hadis 69 and 6125 from hadith Anas bin Malik). Imam Bukhari and Muslim narrated the hadeeth from Aisyah r.a which means; “The Messenger of Allah (peace and blessings of Allaah be upon him) was never asked to choose between two things, except he chose the easiest without sin” (Imam Bukhari & Imam Muslim).

Examples of Third Fiqh Methods in ISE

Among the examples of this third method are as follows:

i. It is the responsibility of iqalah, hawalah, pawana, dhaman, ibra ‘, qard, syirkah, shulh, hajr, wakalah, ijarah, musaqah, qiradh, ‘arirah, wadi’ah because of the difficulty if each one should use what belongs to him. According to Shaykh Izzudin Ibn Abdissalam who states that one of the six types of tafdif fiqh takhfif (the first in the form of the first) is the example of the first zakat on haul, raising the zakat of fitrah in the month of Ramadan and paying for the violation of the oath (as-Suyuti, 2016). Thus, social entrepreneurs can implement the concept of zakat based on this view in the ISE activities holistically. This is because paying zakat on zakat institutions can help alleviate the burden of the poor and poor.

D. Al-Darar Yuzalu (The danger must be eliminated)

This fourth method is the danger must be eliminated. It is applied in various fiqh issues, in other words, it is closely related to maqasid syariah al-khomsah by pre-
serving religion, life, intellect, heredity, and wealth. This method explains that all dangers must be prohibited, abandoned, and banned, including general and specific hazards (Ismail, 2005). Basically, the fiqh method in this category is based on a variety of Islamic laws that prevent any harm in any action. This method is based on the hadith of Rasulullah SAW which means: “There is no harm and is not allowed to repay with harm.” (History of al-Bayhaqi, 1994 no hadith 11384). There are several categories of hazards or harms that are discussed:

i. Al-Darar Yuzal: The harm is to be removed.
ii. Al-Darar Yudfa bi qadr al-Imkan: The muddy is rejected at a rate that can.
iii. Al-Darar la Yuzal bi al-Darar: Mudarat cannot be eliminated with harm for example.

All of these fiqh methods show us that every harm must be avoided or avoided according to their ability. However, the individual is not allowed to respond by harm to others. When harm or danger occurs and continues to occur then it shall be controlled, prevented, avoided, and removed in accordance with the conditions and capabilities.

**Fourth Fiqh method argument**

The Word of Allah which means: “When you are married to your wives, then they are nearer to their end, then reckon them in a right way, or divorce them in a way that is right. Do not treat them to harm, for thus you have them.” (Al-Baqarah, 2: 231).

His Hadith, Prophet Muhammad SAW, which means: “It cannot harm yourself and should not harm others.” (Imam Malik’s hadith in al-Muwatta ‘from Amr ibn Yahya from his father in Mursal. Judges in al-Mustadrak, al-Baihaqi and Daruquutni from the hadith of Abu Said al-Khudri).

Obviously, this method is the basis of most fiqh chapters. Among other things returns the unsuitability of the required property, ta’zir, hajr with all its kind, syuf’ah because it is prescribed to avoid the difficulty of dividing, qisation, all kinds of limitations, kaffarat, damaged goods, qismah (rotation) qadhi variety, avoiding robbery or theft, war against the idolaters and the rebels, fasakh is married due to defects, prosperity and so forth (as-Suyuti, 2016).

**Examples of the Fourth Fiqh Method in ISE**

Among the examples of this fourth method are the following:

i. When a bankrupt person pays a sale, cultivates a land or builds a building on it, then the seller cannot withdraw in the case of a lawful mortgage, as this result in something bad for the pawnbroker. Likewise in the cultivation or building
problems. Plants and buildings remain the property of the bankrupt person. This is because plants can reduce the price of land and make a negative impact on him and those who owe him.

ii. If a person has ten unsuitable houses and the remainder belongs to another person and who asks for his share, the request may be granted in the most authentic opinion, although this may have a negative impact or impact on his company.

iii. Social entrepreneurs who carry out ISE activities through *ijarah* and *tabaruat* are required to ensure that each individual is not a criminal or a criminal who can bring harm or danger later on.

E. *Al-Adah The Court (Adat made law)*

The fifth and final method is custom made law. Customs are rules that have been practiced for generations in society so that they become the laws and regulations that must be followed. This method means that the custom of a society that is not contrary to syarak can be taken into account in determining the law of syarak (al-Burnu, 1997). However, there are some conditions and criteria that need to be understood to accept custom as a law-maker (as-Suyuti, 2016):

i. Such customs need to be consistent and accepted by the majority of the community. Examples of the *ijab* and *qabul* pronoun in the sale and purchase of meat that refers to the beef.

ii. Not contrary to the Qur’an and as-Sunnah, if contrary to the Qur’anic texts and as-Sunnah it is rejected. For example, the custom of marrying people is obliged to wear henna, drinking alcohol, adultery, and the like.

iii. It is adopted as long as it is not agreed otherwise.

Some fiqh methods have been outlined to show local custom implications among the public amongst them as follows:

i. *Al-Adat* of the Court: It is the customary law.

ii. *Al-Ma’ruf ‘urfan ka al-Mashrut Shartan*: The virtuous and respected members of the uruf (local custom) are as required.

iii. *La yunkar taghayyur al-Ahkam bi taghayyur al-Azman*: It is not possible to change the law because of time change.

The fiqh method i. shows every local custom to be a determinant of a law based on local communities. Whereas the next method its refer ii. Allowing things that are known through local custom have their own strengths that bind to each action or become a condition of the act. The passage of time greatly influences the change of law, especially in matters relating to world life as described in fiqh method iii.

**Fifth Fiqh Methods**

The word Allah SWT which means: “*And the father’s duty to feed and dress the mothers in a way that is ma’ruf.*” (Al-Baqarah, 2: 233) [14]. His Word further means:
“O you who believe! It is not permissible for you to inherit the woman by force and do not trouble them for taking back some of what you have given her except when they commit a vile deed. And get along with them in a good way. If you do not like them, then be patient, for you may hate something, but Allah SWT makes a lot of good. “(An-Nisa , 79:19).

The Hadith from the Prophet Muhammad SAW which means: “What is well-regarded by the Muslims is good according to Allah SWT.” (Ditakhrij by Imam Bukhari in his book Sahih (9/117); Imam Muslim in the book al-Hajj (412) and Ahmad in Musnad (2/2 and 508).

Also, hadith regarding Hind binti Uthbah who complained to Rasulullah SAW about her husband (Abu Sufian) who was stingy (bakhil) and did not give her enough sufficiency for the advice of her life and children. Then Hind bint Uthbah took her husband’s money quietly for the purpose of living advice. Then Rasulullah SAW said to Hind which means: “Take as far as necessary for you and your child well.” (Hadith narrated by Bukhari, No Hadith 156)

Examples of the Fifth Fiqh Method in ISE

Among the examples of this fifth method that can be applied by social entrepreneurs in ISE activities are the following:

i. The habit of giving a prize before someone takes office. Ibn al-Subuki said, “I have not found any opinions that can be quoted on this subject, with which the habit can be strengthened.” He further said, “The word ashab al-Syafie described that the habit can be fixed with one grant only.” Therefore, al-Rafi’i insists on this, saying, “The prize should be noted before, and the attention is enough to one time”. Based on the Islamic scholars’ view, it is clear that social entrepreneurs who carry out the tabaruat concept (involving only one party receive unconditionally) have to give gifts or grants to the community carefully for fear of being corrupt or syubhah.

ii. Social entrepreneurs are also required to carry out ISE activities to the non-sighah community which is one of the pillars of buying and selling because it is a local custom in the community.

iii. Social entrepreneurs who make sales transactions using the ringgit currency and decline it, then the fall is the currency that happens. When the habit of showing chaos occurs in that currency, there must be an explanation. When there is no clear explanation, then cancel the sale and purchase transaction.

iv. When social entrepreneurs provide capital to the community for ISE activities by using mudarabah or musharakah contracts and the community involved can still continue their business, profits should be shared between the employees and the heirs of the social entrepreneurs in order for the continuation of ISE activities.
Conclusion

In conclusion, this fiqh method can be used as a reference and specific guidance to social entrepreneurs in carrying out KSI activities comprehensively based on the teachings of the Qur’an and as-Sunnah. This is because, social entrepreneurs are the agents of change to society, especially in improving the economy and eradicating social problems based on lunas and Islamic values. Indirectly, these social entrepreneurs appreciate and practice the concept of racing in performing good deeds. Like the Word of Allah SWT which means “And for every nation there is a qiblah (self) which he is facing him. So rally in doing good wherever you are, surely God will gather you all (on the Day of Judgment). Indeed Allah Almighty is Able to do all things“(al-Baqarah 2: 148).

The understanding of this fiqh method is very important to be mastered and refined by all entrepreneurs especially in addressing various issues and problems involving both business and entrepreneurial activities directly or indirectly. The fiqh method in ISE requires further research, assessment, and assessment so that it becomes a scientific work not only for academics but also for Muslim entrepreneurs out there who want to uphold the symbols of Islam. Accordingly, in accordance with these five fundamental fiqh methods should be applied to social entrepreneurs in order to preserve the common good so that the implementation of ISE activities can provide space and opportunity for all parties to continue living in a more peaceful and harmonious way.

References

The Approaches Adopted by the Selected States in Appointing Universities as Waqf Managers

Rohayati Hussin, Sharifah Zubaidah Syed Abdul Kader, Rusnadewi Abdul Rashid and Nur Aqidah Suhaili

Abstract State laws provide that the State Islamic Religious Council (SIRC) is a ‘sole trustee’ of all waqf properties in such State. Thus, any party, including universities, intending to create waqf, requires authorization of the SIRC beforehand. The permission of SIRC to be sought depends on the location of universities. The willingness of SIRCs to grant the permission to universities depend significantly on their waqf state laws. A state may allow a university to create waqf so long as the provisions of the state enactment allow doing so. However, the managerial status granted to applicant universities are not standardised as each state has different provisions regarding power delegation to universities to manage their waqf assets. In fact, universities in a similar state have acquired different managerial status. The study found that there are three different approaches adopted by the state in granting the managerial status to the universities to manage their waqf assets. By adopting a doctrinal approach and semi-structured interviews method, this study examines the three approaches adopted by the selected states and identifies the relevant provisions of waqf state enactments. The data collected were then analyzed by using content analysis assisted by Atlas. Ti software.

Keywords Law · Sole trustee · State Islamic Religious Council · Universities · Waqf

© Springer Nature Singapore Pte Ltd. 2019
N. Z. M. Sidek et al. (eds.), Islamic Development Management,
https://doi.org/10.1007/978-981-13-7584-2_19

R. Hussin (✉)
Faculty of Law, Universiti Teknologi MARA (UiTM) Kedah, Bedong, Malaysia
e-mail: roha427@kedah.uitm.edu.my

S. Z. S. Abdul Kader
Civil Law Department, Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia (IIUM), Kuala Lumpur, Malaysia
e-mail: sharifahz@iium.edu.my

R. A. Rashid
Faculty of Law, Universiti Teknologi MARA Perlis, Arau, Malaysia
e-mail:rusnadewi@perlis.uitm.edu.my

N. A. Suhaili
Institute of Malaysian Study and International Studies, UKM, Bangi, Malaysia
e-mail: aqidahUKM@gmail.com
Introduction

According to Cizacka (2000), the term waqf is coined from the Arabic word ‘waqafa’, which means to detain, to prevent and to restrain. While in English, the word ‘waqf’ is described as ‘religious endowment’ but this translation may not convey the sense of devotion and grace to which waqf is associated in Islam (Anwar, 2017; Mohsin, 2016).

Sait and Lim (2006) illustrate that under waqf “an owner permanently settles property, its usufruct or income, to the use of beneficiaries for a specific purpose”. In brief, Seman, Kamal and Hoque (2017) summarize waqf as a property which has been restrained (from use) or maintained from the original endowed asset, in which the benefits flow to the general public. Additionally, Wakaf (State of Selangor) Enactment 2015 defines waqf as ‘the dedication of any property from which its usufruct or benefit may be used for any charitable purpose whether as wakaf am or wakaf khas according to Hukum Syarak, but does not include a trust which is defined under Trustee Act 1949 [Act 208]’ (Abdul Kader, 2015).

There is no specific reference to waqf in the Al-Quran or hadith. However, numerous verses are understood as instructing Muslims to use their wealth in the way of Allah as there will be a great reward such as in Surah al-Baqarah (2: 261), al-Baqarah (2: 271), Ali Imran (3: 92), Ali Imran (3: 134), al-Lail (92: 18–21) and al-Hadid (57: 18). As an example, Allah said in (Al-Baqarah: 261):

The parable of those who spend their wealth in the way of Allah is that of a grain of corn: it grows seven ears, and each ear has a hundred grains. Allah gives manifold increase to whom He pleases; and Allah is ample Giving, all-Knowing

The above Quranic verse inculcates that the waqif unremittingly receives Allah’s reward even if he dies so long as his waqf assets are used to benefit others. Also, an understanding of waqf could be seen from a hadith revealing about waqf when Umar asked the Prophet (PBUH), what to do with a palm orchard he owned in the city of Khaibar and the Prophet (PBUH), said:

Give it in charity (i.e. as an endowment) with its land and trees on the condition that the land and trees will neither be sold nor given as a present, nor bequeathed, but the fruits are to be spent in charity (Narrated by Bukhory).

Thus, from the Quranic verse and hadith mentioned above, one way to be a donor is through waqf. In fact, waqf is considered one of the best instruments for supporting many institutions continuously. Sait and Lim (2006) affirm that waqf is a vastly important legal apparatus and became a significant Islamic institution which has been recognized under the Shari’ah for a long period. Similarly, waqf has been recognized in history as one of the potential resources to fund higher education such as University of al-Qurewiyyin in Fez, al-Azhar University in Cairo, and the Shrine College of Abu Hanifah in Baghdad (Romli & Mohammed 2016).

Equally important, waqf in Malaysia has also been implemented in many areas specifically in higher education. The importance of waqf in higher education is highlighted by many previous studies such as (Alias, Johari, & Rahman 2014; Nur Aaina
Aqilah Jamaluddin, Muhammad Shuhur Azizuddin, & Nur Hidayu Mohamad, 2016; Mahamood & Rahman, 2015). So far, however, there is no specific definition of a waqf university in any literature nonetheless, (Mahamood & Rahman 2015) consider a waqf university as a university formed based on waqf concepts and principles. On the other hand, (Shukor 2017) demonstrates that waqf adoption in universities refers to the various forms of waqf which are accepted for the use of universities and students with the aim of enriching the level of education and to receive the pleasure of Allah SWT. Also, waqf adoption in any institution must adhere to four waqf rules, namely, akad (sighah), dedicator/donor (waqif), beneficiary (mawquf ‘alaih), and asset/property (mawquf). The donor and the beneficiary of waqf are significant participants in a waqf relationship, as well as the mutawalli (manager/trustee). Similarly, in the context of universities, there are four main stakeholders of waqf, namely, the donor (waqif), sole trustee, waqf administrators and beneficiaries, which will be discussed later.

The donors are the parties who willingly donate their movable or immovable properties legally owned by them to the universities for the purpose of supporting the beneficiaries. Second, as a sole trustee of all waqf properties in the state as stipulated by waqf state enactments, the State Islamic Religious Council (SIRC) has an authorized power to grant permission for universities to be a waqf administrator and manager. Third, waqf administrators in the universities are permitted by the SIRC to create a sustainable structure involving the acts of collecting, raising, using, managing, investing and developing waqf funds. Besides, universities as waqf managers are required to manage the waqf assets prudently and professionally as stipulated by the laws for the sustainability of waqf universities in future. Finally, beneficiaries are considered as the primary actors in the creation of waqf in universities. The earnings of waqf may be dispersed to Muslims or non-Muslims (Ministry of Higher Education, 2016). Additionally, waqf funds in universities could be used to benefit the development and prosperity of academic activities in the universities (Mahamood & Rahman, 2014).

**Literature Review**

Malaysia is a federation consisting of 13 states and three federal territories. The Federal Constitution of Malaysia is supreme law of the Federation as explained under Article 4 which binds all the states and federal territories. Additionally, under Article 3 of Federal Constitution, Islam is recognized as the official religion, but other religions may be practiced in peace and harmony in any part of Federation. Based on the Federal Constitution, Islamic matters (except Federal Territories) are positioned in the Ninth Schedule and List II (State List) stipulates the Ruler (King) as the head of the religion (Islam), while in the case of a state without a Ruler; the Yang Di Pertuan Agong is the head of the religion (Islam). In each state, the SIRC is formed to advise the Rulers on all Islamic matters and each state has enacted its own Islamic legislation. Statutes or legislations governing waqf have been introduced.
under Article 74, read together with the State List of the Ninth Schedule. The SIRC
will enforce all the legislations accordingly. Different states will have a different set
of legislation (Yaacob, 2013). The detailed description of waqf can be seen in Article
74 (2) of Federal Constitutions which mentions that:

…Wakafs and the definition and regulation of charitable and religious trusts, the appointment
of trustees and the incorporation of persons in respect of Islamic religious and charitable
endowments, institutions, trusts, charities and charitable institutions operating wholly within
the State…

In the effort to provide a more concerted effort in the development and utilization
of waqf assets in Malaysia, the Federal Government established the Department of
Waqf, Zakat and Hajj or Jabatan Waqf, Zakat dan Haji (JAWHAR) in 2004 under the
Prime Minister’s Department. JAWHAR has thus far been able to provide a platform
which helps in synchronizing SIRCs of different states in Malaysia on matters relating
to waqf (Hussin & Rashid, 2017).

State laws relating to waqf recognize the SIRC as a sole trustee of all waqf, whether
general or specific waqf (Abdul Kader & Mohamed, 2014). For example, Section 4
of Wakaf (State of Selangor) Enactment 2015 provides that “Majlis as sole trustee
for all wakaf”. Through this provision, it deliberates that the governance of waqf in
Malaysia is positioned under the ‘Institutional Mutawalli (Abdul Kader, Mohamad,
Ali, & Ishola, 2017). As such, SIRC has exclusive power to legislate laws on the
administration and management of waqf. Nonetheless, not all states have enacted
specific enactment relating to waqf as certain states still relying on the provisions of
Administration of Muslim Law in their states.

Currently, only five states have enacted their waqf legislations viz.; Wakaf (State
of Terengganu) Enactment 2016, Wakaf (State of Selangor) Enactment 2015, Wakaf
(Perak) Enactment 2015, Wakaf (State of Malacca) Enactment 2005 and Wakaf
(Negeri Sembilan) Enactment 2005. Apart from that, Johor also has a specific rule for
the administration and management of waqf, namely, waqf Johor Wakaf Rules 1983.
These laws contain more comprehensive features such as definition of waqf, role
and responsibilities of the SIRC, the appointment of a Registrar of waqf, establish-
ment of waqf fund, detailed rules for istibdal and the development of waqf property,
establishment of a Waqf Management Committee or an Advisory Panel on the man-
agement of waqf, and the position of an invalid waqf. They also describe offences
and penalties and provide for enforcement and investigation (Yahya Munawar Malik,
2018).

The fact that the laws recognize the SIRC a sole trustee of waqf does not deny the
power of other institutions other than the SIRC to manage waqf assets, provided del-
egation of power is allowed by laws and upon approval of the SIRC in the respective
state. There are specific provisions in the state enactments which provide such dele-
gation of power as elaborated in section 27(2)(b) of Wakaf (Perak) Enactment 2015,
section 4(1)(b)(c) of Wakaf (State of Selangor) Enactment 2015 and section 4(e) of
Wakaf (State of Terengganu) Enactment 2016 (Mohamad, 2018). Likewise, several
states have appointed other agencies to manage waqf such as the Johor SIRC has
granted the sub-mutawalli status for a company known as Waqf Annur to manage
waqf assets of Johor Corporation and recognized UTM to collect waqf funds for the university (Abdul Kader, Mohamad, Ali & Ishola 2017). Additionally, Bank Muamalat Malaysia Berhad (BMMB) is granted a permission by the Federal Territories SIRC to collect waqf funds from the public (Shafii, Iqbal, & Tasademir, 2015). It is therefore understood that any collection of waqf funds must be with the approval of the SIRC and the performance of waqf without the approval of SIRC is deemed to contradict the laws pursuant to section 45 of Wakaf (State of Selangor) Enactment 2015 providing as follows:

Any person who administers or manages wakaf am or wakaf khas without the written permission of Majlis or Corporation commits an offence and shall, on conviction, be liable to a fine not exceeding one thousand ringgit or to imprisonment for a term not exceeding six months or to both (Mahamood & Mahamood, 2016).

Nevertheless, several authors consider such requirement as a ‘legal hindrance’ to the creation and management of waqf properties (Abdul Kader & Mohamed, 2014; Yahya Munawar Malik, 2018) Comparatively, other countries like Singapore and Middle East do not allow the waqif to appoint any entrusted waqf trustees to manage their waqf funds. They believe that without such hindrance, income from waqf properties could be highly generated, apart from helping beneficiaries and public. Yet, the cautiousness of SIRC in permitting other agencies to manage waqf funds should be firmly recognized to ensure waqf properties are well managed by competent and professional agencies (Mohamad, 2018). Hence, acknowledging this, higher education institutions in Malaysia requires permission from the SIRCs before collecting and managing waqf funds.

Method

This paper adopts a qualitative methodology which involves doctrinal and fieldwork approaches. Data collection obtained from library research and interviews were analyzed using the content analysis method. Additionally, comparative analysis was used to compare the findings in terms of the regulatory frameworks related to the three approaches adopted by the selected states, namely, Selangor, Negeri Sembilan and Perak.

Results and Discussions

Acquiring the permission from the SIRC before operating waqf is a legal condition. Therefore, the location of the university determines which SIRCs’ permission should be sought and what regulatory framework to follow. Given that Selangor and Negeri Sembilan have established waqf corporations to manage waqf funds viz. Selangor Wakaf Corporation (PWS) and Negeri Sembilan Waqf Corporation (PWNS) there-
fore, all applications to establish waqf funds must go through them. Both corporations are considered Nazir appointed by their respective SIRCs. The SIRCs in each state have different approaches in appointing HEIs as a waqf manager. Findings of this paper reveal that practically, there are three approaches usually used by the SIRCs in appointing HEIs as waqf manager, namely; Joint Venture Approach, Wakil Naziran Approach and Mutawalli Approach. The three approaches identified are explained in detail in the following part.

(i) Appointment of Higher Education Institution (HEI) as Mutawalli

HEIs in Selangor acquire different managerial status although they are in the same state. In Selangor, Selangor Islamic Religious Council (MAIS) is a Mutawalli while the Selangor Waqf Corporation or Perbadanan Wakaf Selangor (PWS) is a Nazir. MAIS as the sole trustee of waqf is not willing to appoint other entities as Mutawalli since the status specially refers to them. As of now, no university in Selangor is given the Mutawalli status. For instance, UIM was originally granted designation as Mutawalli but nonetheless, after the term of appointment had expired, UIM’s status was changed to ‘Wakil Nazir’ (Mohd Zul Fadhlain, personal communication, 24 November 2016).

In the same way, UPM and UKM received the Mutawalli designation from MAIS for several years ending 2015. After that, UPM and UKM were required to renew their status to be able to continue collecting waqf funds. Since PWS’s establishment in 2011, all waqf matters are handled by PWS. Recently, MAIS introduced a new position which is waqf collector as those interested in waqf collection will become an agent of PWS in collecting waqf funds. A different approach was used by the Negeri Sembilan SIRC in regard to USIM. USIM has been granted Mutawalli status with full autonomous powers to manage their waqf assets (Alimazri, personal communication, 24 November 2016). On the other hand, with the self-governing power granted, USIM is still required to submit periodic management and financial reports on the USIM Al-Abrar Waqf Fund to PWNS (Mohammad Alias et al., 2014).

Similarly, Perak enacted a new statute governing waqf namely, the Perak Waqf Enactment 2015 in April 2016. In the enactment, there is a clause allowing Majlis Agama Islam dan Adat Melayu Perak (MAIPk) to appoint any trusted person or institution to become Mutawalli on behalf of MAIPk (Suhaimi, personal communication, 13 April 2018). According to MAIPk Chief Executive Officer, Datuk Dr Amiruddin Muhamed, any application sought by HEIs in Perak which adheres to Islamic law requirements, standard operating procedures as well as the parameters of the established state law, will be favorably considered. As such, Universiti Pendidikan Sultan Idris (UPSI) is the first university in Perak appointed as Mutawalli by MAIPk for a period of two years to collect waqf funds for the construction of the RM25 million BITARA hut complex and Education Academy. In addition, UPSI’s Islamic Centre Director, Dr Mohd Abdul Masir Abd Latif, said the university’s appointment as Mutawalli waqf has provided the opportunity for the education university to establish a collection for the construction of a waqf project in providing Islamic education and education (Ismaniza Ahmad, 2018). The period of appointment will expire once the funds are sufficient and they have completed the construction work (Rosli, per-
sonal communication, 13 April 2018). Besides, Suhaimi (personal communication, 13 April 2018) states that MAIPk has also approved an application from Universiti Teknologi Petronas (UTP) as a Mutawalli, in January 2018, and they were at the final stage of the application process before implementing the appointment during the period of the interview conducted.

(ii) Appointment of Higher Education Institution (HEI) Based on Joint Venture Approach

The second approach adopted in empowering HEIs in managing waqf is through a Joint Venture approach. An example is shown in the joint venture management between Dana Wakaf Ilmu UPM (DWIUPM) together with the Selangor Wakaf Corporation (PWS), a subsidiary under MAIS mandated to manage waqf in the State of Selangor. Appointment of PWS as representative of the Council in managing waqf is provided in section 8 of the Selangor Waqf Enactment 2015 as follows:

Delegation of Duties or Powers of Majlis

8. (1) The Majlis may, by resolution, and subject to the conditions and restrictions as the Majlis deems fit, delegate to the Corporation the discharge of any of its duties or the exercise of any of its powers under this Enactment.

(2) The performance of duties and the exercise of powers pursuant to the delegation under subsection (1) shall be subject to the control and direction of the Majlis.

(3) The Corporation shall inform the Majlis as to all actions and matters done by the Corporation pursuant to such delegation.

PWS was established by the order of Establishment of the Selangor Wakaf Corporation 2011 [Sel. P.U. 8/2011] as set out in section 2 in the interpretation section of the “corporation” of this Enactment. This cooperation is through a Memorandum of Understanding (MoU) and a Memorandum of Agreement (MoA) which was sealed between both parties through the waqf project ‘ilmi’ and subject to the agreed period between the two bodies.

Before the amendment of the Selangor Waqf Enactment 2015, the provisions applicable for granting management authority to DWIUPM was section 7(2)(b) and (c) of the Selangor State Religious Administration Enactment 2003. This provision empowers SIRC to cooperate with anybody in the development of the Muslim economy. While, after the amendment of the Selangor Waqf Enactment, section 4(1)(a) and (b) of the Selangor Waqf Enactment 2015 shall apply in granting the waqf management cooperation agreement between the two institutions. It also explains that MAIS, as the sole trustee of waqf property in Selangor, is to be informed concerning any deal related to waqf. In addition, the management of waqf at DWIUPM should also be in line with the provisions of the Selangor Waqf Enactment 2015 (Siti Umairah Ali Hamdan, 2016).

(iii) Appointment of Higher Education Institution (HEIs) as Wakil Naziran
The third appointment approach is known as ‘Wakil Naziran’. The term Wakil Naziran means an institution is given the appointment (as representative) to perform the duties of the management of the waqf assets entrusted to it. Universiti Islam Malaysia (UIM) has obtained written permission from MAIS to manage waqf assets via MAIS/SI/BPH/02/007/16/JLD reference letters. The contents of the letter states that UIM has applied for and obtained recognition as ‘Wakil Naziran’. In 2011, during the establishment of UIM, there was no specific provision relating to the appointment of ‘Wakil Naziran’ either through the Selangor State Religious Administration Enactment or the Selangor Wakaf Enactment on this matter. Nevertheless, in October 2015, amendments to the Selangor Wakaf Enactment have been approved for enforcement. A new provision has granted additional authority to MAIS to appoint a manager or waqf administrator. It serves to assist MAIS in implementing the task of waqf management. The provisions of section 4(1)(c) of the Selangor Wakaf Enactment 2015 state:

4. (1) The Majlis shall be the sole trustee for all wakaf situated in the State of Selangor and shall have the powers to

(a) establish a Corporation;
(b) appoint or give written permission to any person to become the administrator or manager and hold any mawquf on his behalf; and (c) declare the appointment of any administrator or manager in situation where waqif has appointed his own administrator or manager subject to the terms and conditions prescribed by the Majlis.

This provision clarifies that the implementation of waqf in UIM is in accordance with the requirements of waqf law in Selangor. Therefore, the management of waqf in UIM is bound by the provisions of waqf law in the State of Selangor, especially from the aspect of registration of waqf, the holding of waqf property, the placement of waqf land and so on.

Conclusion

There is no uniformity of regulatory frameworks relating to waqf implementation in HEIs in Malaysia as waqf is a state matter subjected to state laws. Therefore, each university should be aware of the applicable frameworks in the state before acquiring the permission from SIRC to implement waqf. On part of HEIs, acquiring the legal permission before operating is important no matter what status is granted as the main aim is to enrich the level of education in the institution by using the instrument of waqf apart from receiving the pleasure of Allah SWT. On part of SIRCs, they should consider every perspective before granting the permission and the chosen status to preserve the waqf assets. No matter what approaches are used, it must comply with the Shari’ah and the applicable laws.
References


The Need for Credible Reporting of Shariah Non-compliance Event by Islamic Banks in Malaysia

Syahiru Shafiai and Engku Rabiah Adawiah Engku Ali

Abstract  The paper discovers the issue of Shariah non-compliance event disclosure as reported in the annual reports and Basel II Pillar 3 disclosure by Islamic financial institutions in Malaysia. The extent to which shareholders trust on the information reported in financial statements depends on the credibility of those annual reports. This Shariah non-compliance event disclosure has value-relevance to investors and the public interest, but previous studies lack the reasons that affect Islamic financial institutions’ decisions to willingly disclose the event. The paper aims to discuss whether the advisory role constrains the Shariah Committee members to improve disclosure which can increase the accountability of the company and market confidence. Shariah Committees are the backbone of Islamic financial structure and they play a substantial role in the efficient functioning of the system. Financial institutions establish the credibility of their annual report by having an independent Shariah Committee to verify the accuracy of those disclosures. This study also wants to provide understandings as to whether current Shariah non-compliance event disclosure practices of Islamic banks can achieve the anxieties of shareholders to assist them in improving transparency. This paper uncovers the information released in the report for the year 2016 and 2017 of 16 Islamic banking in Malaysia. The paper discusses the need for improving transparency through sufficient, valid and pertinent disclosure of Shariah non-compliance event in the reports. What is required is not necessarily only the disclosure of the Shariah non-compliance event per se, but it should be consisted of an explanation, in plain and comprehensible language to mitigate the risk.

Keywords  Disclosure · Risk management · Shariah committee · Shariah governance · Shariah reporting · Shariah non-compliance event

S. Shafiai (✉)
IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, Graduate Fellow, Islamic Science University of Malaysia, Kuala Lumpur, Malaysia
e-mail: syahirushafiai@yahoo.com

E. R. A. Engku Ali
IIUM Institute of Islamic Banking and Finance, Professor, International Islamic University Malaysia, Kuala Lumpur, Malaysia

© Springer Nature Singapore Pte Ltd. 2019

Introduction

Islamic banking and finance has grown up globally, according to World Islamic Banking Competitiveness Report 2016 (EY, 2015), the accumulation profit of world Islamic banking industry is anticipated to achieve USD$30.3 billion by 2020. Approximately 92% of international banking assets are based in the QISMUT markets (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates and Turkey. Malaysia’s capabilities in the Shariah—compliant asset management industry has developed strength to strength. Hanadzlah (2012a) said the Malaysian government will continue to ensure that Malaysia will become a global leader in Islamic asset management. As Malaysia is moving progressively to a high-income economy, 60% of Malaysian Gross Domestic Product (GDP) by the year 2020 is contributed by service sector. By the way, the Malaysia’s financial industry is predicted to be a crucial element in the nation’s service economy with Islamic finance industry as one of Malaysia’s largest competitive value propositions (Hanadzlah, 2012b). Every year, financial institutions will publish their annual report to the public on their business achievement and performance. Hence, it helps to strengthen the transparency of the company. Nowadays, from the community awareness, the financial institutions are under pressure, they begin to release several information including risk exposures, management policies and risk management practices (Shabbir, 1999). However, every company have their own degree of transparency through the firm’s disclosure policy to ensure the report depicts the relationship between the strategic objectives of the firm and the key performance indexes (Deloitte, 2016; Hauswald & Marquez, 2009). The annual report should disclose to the public on both financial and non-financial performance measurement, the operation of base pay, bonuses, and short and long-term incentives in link to the execution of the firm (Deloitte, 2016). The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) state that a key purpose of financial statements is to improve decision-making by lenders, shareholders, potential investors and other providers of capital and investment.

Literature Review

Given the importance of Shariah governance, this conceptual paper discovers the disclosure of Shariah non-compliance event as reported by the financial institutions in the annual reports of Islamic banks in Malaysia. International accounting standard practiced by conventional banking practices usually issues some obligatory and voluntary supply of information concerning the level of disclosure in an annual report (Harahap, 2002). Hence, the disclosure practiced by Islamic banks are able to meet the requests of shareholders to support them in enlightening the transparency to enhance corporate governance (Kasim, 2012).
A. **Transparency**

Transparency is defined as “the public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank’s financial condition and performance, business profile, risk profile and risk management” (Linsley & Shrives, 2005). The guidelines on disclosures and financial reporting also should be covered by Malaysian Islamic banking and finance ecosystem. For instance, Guidelines on Financial Reporting for Islamic Banking Institutions has been reviewed to improve and facilitate users of financial statements to evaluate and measure different risks profiles and characteristics. Moreover, it is also to confirm that it is in line with the Malaysian Financial Reporting Standards (MFRS). The guideline is effective from 5 February 2016 and is estimated to inspire more quality, transparency and significance of Islamic finance system (BNM-FRIBI, 2016). The Islamic Financial Services Board (IFSB) is an international standard-setting organization that promotes and enhances the soundness and stability of Islamic finance defines the *Shariah* governance system in IFSB-10 (2009) as “a set of institutional and organizational arrangements through which IFIs ensure that there is effective independent oversight of *Shariah* compliance over the issuance of relevant *Shariah* pronouncements, dissemination of information and an internal *Shariah* compliance review”.

In the perspective of IFIs, the definition of corporate governance can be referred to in the IFSB-3 (2006), Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds). The standard or *Shariah* governance is required to sustain the trust of clients of IFIs and to safeguard the interest of investors and other stakeholders in the Islamic financial system.

To support and reach a certain level of development, regulators of IFIs need to highlight the *Shariah* regulatory issues by the appropriate and sound *Shariah* governance model based on the true values of Islam. The model is called *Shariah* Governance Model (SGM) (Table 1) introduced by Hussain (2014) which is consisted of four basic pillars.

Minhas (2012) published a paper in which he discussed the transparency and disclosure. The discussion is not only influence the cost of capital but also on the reputation of the company, shareholders’ decision and to the fluctuation in share prices. The information is of two categories, financial and non-financial. A quality and timely information on the matters of the company makes them good return shares and it helps the company to generate capital from the public. In a study into disclosure issue, shareholder and the public are always concerned with useful and

| **Table 1** Shariah governance model (SGM) |
| Management and supervision | *Shariah* advisory |
| *Shariah* compliance and review management | Transparency and disclosure |

hajarsalwa@gmail.com
correct information about a company in their decision-making process and investment strategy. Hence, the consumers’ confidence would also help to promote Malaysia as an Islamic financial centre.

B. Legitimacy Theory

Suchman (1995, p. 574) deliberates that “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” In this paper, legitimacy theory has the part of clarifying the organizations behaviour in fulfilling voluntary social disclosure of information to meet shareholder requirements. Public perception toward the financial institution’s undertakings are disclosed in line with the requirements of industry players (Idowu, Capaldi, Zu & Gupta, 2013).

C. AAOFI, BASEL, IFSB and BNM

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has set up Islamic accounting standard that comprises a different type of disclosure requirements and regulations on the Islamic financial institutions. Islamic accounting can be extensively defined as a system of information that provides result of operation of institutions and make sure that the data and statistics disclosed are valid, justifiable, Shariah compliance, and the most important is—it must be free from any false corporate information (Harahap, 2002). Hence, the perspectives of legitimacy theory and corporate governance structures are entreated in this paper. The scenario in Malaysian capital market and public ownerships make this conceptual paper has more importance towards the Islamic finance industry. They will be able to value the present Shariah regulatory framework in improving the level of revelation Shariah non-compliance event disclosure by IFIs in the annual reports. This Shariah non-compliance event disclosure has value-relevance to stockholders and the public interest, but what previous study is lacking is regarding the reasons that effect IFI’s decisions to willingly disclose the event.

On the other hand, Bank of International Settlements (Basel) Committee on Banking Supervision Standards (BCBS, 2015) has discussed five (5) guiding principles for banks’ Pillar three disclosures which are:

Principle 1: Disclosures should be clear
Principle 2: Disclosures should be comprehensive
Principle 3: Disclosures should be meaningful to users
Principle 4: Disclosures should be consistent over time
Principle 5: Disclosures should be comparable across banks

The requirements in Pillar 3 completes the minimum risk-based capital requirements and other quantitative prerequisites in Pillar 1 and the supervisory review process in Pillar 2. This revised standard intends to develop a market discipline by reporting official information to stakeholders and other interested parties are anxiously waiting for news concerning the company, as long as it does not require the disclosure of confidential data or sensitive information. In annual report disclosure,
there is *Shariah* non-compliance event that may be included in the IFIs’ annual financial report statement. Banks are strongly recommended to disclose the basic information, and to articulate as far as possible how they mitigate and handle any possible *Shariah* non-compliance event according to policy document—Financial Reporting for Islamic Banking Institutions (Minimum Disclosure Requirements) issued by Bank Negara Malaysia (BNM-FRIBI, 2013), Part 10.5.

The explanatory notes to be disclosed in the annual financial statements of a licensed person shall include the information specified in 10.6–10.21.

On the other hand, this conceptual paper seeks to make sure that every IFI is conducting its business in full compliance with all *Shariah* governance disclosures standards as stated in Capital Adequacy Framework for Islamic Banks issued by Bank Negara Malaysia (BNM-CAFIB, 2010), Part C, Specific Disclosure Requirements (11) (Table 2).

D. *Effects Shariah Non-Compliance Event*

The failure of the product in the market may cost IFIs severe direct and indirect loss (Hassan, 2016; Izhar & Hassan, 2013). But Hassan (2016) and Izhar and Hassan (2013) are much more concerned with reputation. Having a negative reputation to the public will affect the confidence level of investor and the existing or potential customer. The failure to manage the *Shariah* non-compliance risk effectively can result to invalidation of an Islamic contract. Thus, the income from the contract must be channelled to charity. Of course, as a *Shariah* Committee, they are trying their very best to ensure the products are following Islamic principles. As a team who has the authority to endorse the product, *Shariah* Committee should take this as their Key Performance Indicator (KPI) (BNM-SGF, 2010). The approval process of a product needs ample time from the first moment it is tabled until the *Shariah* Committee makes a decision. The entire process cannot be completed automatically. Hence, human rulings are needed to decide on certain issue (Donia & Marzban, 2008). Moreover, manual work is still needed to check documentations, surveys on public perception and others. In the case of Islamic finance, the issue of *maslahah* (public interest) will also influence the *Shariah* Committee when issuing the resolutions. On the other hand, the effectiveness of *Shariah* Committee is not only needed in term of halal or haram but also, the justifications of each product before it is offered to

<table>
<thead>
<tr>
<th>Table 2  Shariah governance disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of disclosures</td>
</tr>
</tbody>
</table>
| Qualitative | 1. Description of the *Shariah* governance structure, systems, processes and controls employed for the purpose of ensuring *Shariah* compliance  
2. Description of rectification process of non-*Shariah* compliant income occurring during the year |
| Quantitative | 3. The amount of non-*Shariah* compliant income and the number of non-*Shariah* compliant events occurring during the year |

hajarsalwa@gmail.com
the public. Thus Adam & Bakar (2014) suggest getting as many intelligent methodologies to boost Shariah compliance business by changing the technique that the businesses are managed. Shariah non-compliance income must be taken out from the company and be given to the charity and they must be transparent regarding this issue.

In the same vein, Akkizidis and Khandelwal (2008) in their book Financial Risk Management for Islamic Banking and Finance note that the risk can arise due to people, processes, systems, as well as several other factors. In this research, the researchers are trying to figure out the involvement of people which is Shariah Committee towards the Shariah non-compliance event in the institutions. Hassan (2015) stated that the term “people” is referred to groups of stakeholders who are included in the operations of IFIs. These include Board of Directors (BOD), Shariah Committee and management officers of IFIs. It is opposed that the obedience of ensuring Shariah compliance of Islamic banking products not be solely relied to Shariah Committee, but also to another department in IFIs. While certain researchers focus on other factors, Akkizidis and Khandelwal (2008) are more concerned with people factor, it discusses the losses which come from events such as human errors, frauds, violations of internal rules and procedures. Nowadays, the issues are more complex for IFIs since the modern Islamic financial activities and the characteristics of the financial contracts are totally different (Izhar & Hassan, 2013).

E. Qualitative and Quantitative Disclosure

According to the Basel Committee on Banking Supervision (BCBS, 2003), Shariah risk is part of operational risk. The causes of such risk may be of three types of internal causes: (1) people; (2) internal processes; and (3) systems; and one external factor which results from external events (Ginena, 2014). In general, the causes of Shariah non-compliance in practice as outlined by Lahsasna (2014) include the following: (a) Lack of knowledge, skills, and competency (b) Lack of training (c) Lack of close monitoring and proper supervision (d) Weakness of internal control system (e) Weakness in the information technology and infrastructure of the system (f) Human error and moral hazard (g) Dual banking business activities (h) Miscommunication (i) Logistics.

Method

The extent and nature of Shariah non-compliance event disclosure is gathered from the content analysis of annual reports of 16 Islamic bank (BNM, 2018) for the years 2016 and 2017, prior to a more detailed prescriptive regulatory environment occurring in this topic when Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia became effective in the first quarter of 2016. To clarify the factors that could affect board decisions about the level of discretionary disclosure details concerning Shariah non-compliance event. This study only takes
The Need for Credible Reporting of Shariah Non-compliance …

Table 3  List of licensed financial institutions in Malaysia

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Affin Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>2</td>
<td>Al Rajhi Banking &amp; Investment Corporation(Malaysia) Berhad</td>
<td>F</td>
</tr>
<tr>
<td>3</td>
<td>Alliance Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>4</td>
<td>AmBank Islamic Berhad</td>
<td>L</td>
</tr>
<tr>
<td>5</td>
<td>Bank Islam Malaysia Berhad</td>
<td>L</td>
</tr>
<tr>
<td>6</td>
<td>Bank Muamalat Malaysia Berhad</td>
<td>L</td>
</tr>
<tr>
<td>7</td>
<td>CIMB Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>8</td>
<td>HSBC Amanah Malaysia Berhad</td>
<td>F</td>
</tr>
<tr>
<td>9</td>
<td>Hong Leong Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>10</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
<td>F</td>
</tr>
<tr>
<td>11</td>
<td>MBSB Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>12</td>
<td>Maybank Islamic Berhad</td>
<td>L</td>
</tr>
<tr>
<td>13</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>F</td>
</tr>
<tr>
<td>14</td>
<td>Public Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>15</td>
<td>RHB Islamic Bank Berhad</td>
<td>L</td>
</tr>
<tr>
<td>16</td>
<td>Standard Chartered Saadiq Berhad</td>
<td>F</td>
</tr>
</tbody>
</table>

*aL-Local F-Foreign*

information on financial statement and Shariah Committees Report by the financial institutions in the annual reports and Basel II Pillar 3 Disclosure of Islamic banks in Malaysia (Table 3).

Research Implications/Limitations

This research is based on content analysis and will using dichotomous scale (yes–no) questions (or attributes) about some domain of inquiry (Batchelder & Narens, 1977), this study will focus to Shariah non-compliance event report in the annual reports and Basel II Pillar 3 Disclosure issued by the financial institutions. In future research, interviews can be conducted with other stakeholders such as bank’s Shariah risk management board and shareholders, as well as Shariah Committees. By doing this interview, this study can get a better picture of the Shariah non-compliance event disclosure exercises by the financial institutions. The future paper aims to discuss whether the advisory role constrains the Shariah Committee members to improve disclosure which can increase accountability of the company and public confidence. Hence,
the company or financial institutions should disclose their *Shariah* non-compliance event with minimum requirements (BNM-FRIBI, 2016) to avoid negative perception toward their credibility and it also will increase public confidence. The effectiveness of the *Shariah* Committee in mitigating the *Shariah* non-compliance event can also bring Islamic finance to a new level and standard. The effective *Shariah* governance in Islamic finance in Malaysia has been approved when the Malaysia government has introduced a special High Court in the Commercial Division or the *muamalat* (economic transaction) bench and the amendment of Sect. 16B of the Bank Negara Malaysia Act, BNM 2003. The *muamalat* bench in the High Court emphasizes by the respective judges on the disputes on Islamic finance system and it also can be considered as an approach of coordinating the Islamic law and conventional law in Malaysia (Hasan, 2007). *Shariah* governance is a soul to Islamic banking system of financial ecosystem and it can be considered as an essence of corporate governance for Islamic banks.

**Results and Discussions**

Table 4 illustrates the number of *Shariah* non-compliance event assessing 16 Islamic banks as not disclosed or disclosed with total of event, in 2016 and 2017. In the year 2016, the total event is 33 incidents, which is 14 incidents higher than the year 2017. Overall, AmBank Islamic has recorded the highest events in the year 2016, and Affin Islamic Bank, CIMB Islamic Bank and Kuwait Finance House stated the lowest. Meanwhile, AmBank Islamic and Al-Rajhi events dropped over the period, while that of Kuwait Finance House no events for both years. HSBC Amanah, Hong Leong Islamic, Public Islamic and RHB Islamic remain to not disclosed the number of events for consecutive years for their banks and they only stated they have managed the event through the Syari’ah Committee and internal management.

Table 5 shows the *Shariah* non-compliance income assessing 16 Islamic banks as disclosed, in 2016 and 2017. Overall, the result shows that the total income involved in the incidents for each Islamic bank can achieve to RM10 million (AmBank Islamic) and this figure is quite high compare with other banks, the rest of the Islamic financial institutions income stated the amount around RM200–RM500,000.

Meanwhile, in the year 2017, average *Shariah* Non-Compliance income is higher than previous year, 2016. Turning to 2017, the income for all banks decreased and it shows that the Islamic banks took the right action to reduce the *Shariah* Non-Compliance event in their banks and it also was minimized the financial.
Table 4 Disclosure of number of Shariah non-compliance event

<table>
<thead>
<tr>
<th>Year</th>
<th>Affin Islamic</th>
<th>Al-Rajhi Islamic</th>
<th>Alliance Islamic</th>
<th>AmBank Islamic</th>
<th>BIMB</th>
<th>Muamalat</th>
<th>CIMB Islamic</th>
<th>HSBC Amanah</th>
<th>HL Islamic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>Not disclosed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Not disclosed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total/Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>KFH</th>
<th>MBSB</th>
<th>Maybank Islamic</th>
<th>OCBC Al-Amin</th>
<th>Public Islamic</th>
<th>RHB Islamic</th>
<th>StandChart Saadiq</th>
<th>Total FY2016/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Not disclosed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>na</td>
<td>4</td>
<td>6</td>
<td></td>
<td>5</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Not disclosed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>na</td>
<td>1</td>
<td>3</td>
<td></td>
<td>6</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Total fund</td>
<td>Affin Islamic</td>
<td>Al-Rajhi Islamic</td>
<td>Alliance Islamic</td>
<td>AmBank Islamic</td>
<td>BIMB Islamic</td>
<td>*Muamalat Islamic</td>
<td>CIMB Islamic</td>
</tr>
<tr>
<td>------</td>
<td>------------</td>
<td>---------------</td>
<td>------------------</td>
<td>------------------</td>
<td>----------------</td>
<td>--------------</td>
<td>------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>2016</td>
<td>Not disclosed</td>
<td>✓</td>
<td>No event</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM0–RM5,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM6000–RM50,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM60,000–RM100,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM200,000–RM500,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM600,000–RM1million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM1million–RM5million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM6million–RM10million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2017</td>
<td>Not disclosed</td>
<td>✓</td>
<td>No event</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM0–RM5,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM6000–RM50,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM60,000–RM100,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM200,000–RM500,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM600,000–RM1million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM1million–RM5million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>RM6million–RM10million</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Table 5 (continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total fund</th>
<th>HL Islamic</th>
<th>KFH</th>
<th>MBSB</th>
<th>Maybank Islamic</th>
<th>OCBC Al-Amin</th>
<th>Public Islamic</th>
<th>RHB Islamic</th>
<th>StandChart Saadiq</th>
<th>Total FY2016/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Not disclosed</td>
<td>✓</td>
<td>na</td>
<td>2</td>
<td>No event</td>
<td>2</td>
<td>RM0–RM5,000</td>
<td>✓</td>
<td>2</td>
<td>RM6000–RM50,000</td>
</tr>
<tr>
<td></td>
<td>RM60,000–RM100,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>RM200,000–RM500,000</td>
<td>1</td>
<td>RM600,000–RM1million</td>
<td>0</td>
<td>RM1million–RM5million</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>Not disclosed</td>
<td>na</td>
<td>✓</td>
<td>1</td>
<td>No event</td>
<td>3</td>
<td>RM0–RM5,000</td>
<td>✓</td>
<td>✓</td>
<td>RM6000–RM50,000</td>
</tr>
<tr>
<td></td>
<td>RM60,000–RM100,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>RM600,000–RM1million</td>
<td>0</td>
<td>RM6million–RM10million</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*Two different figures*
Conclusion

This study focuses on the disclosure of Shariah non-compliance event as reported by the Islamic financial institutions in the annual reports and Basel II Pillar 3 Disclosure in Malaysia. Ultimately, this study offers and formulate some recommendations for enhancing and improving present Shariah non-compliance event disclosure and Shariah governance in Islamic banks. From the result, it shows that the Shariah non-compliance event disclosure is still low and need improvement. Hence, for future research, the aim to know the responsibilities by Shariah Committee in mitigating the operational risk. To achieve a good governance practice, the financial institutions should invest funds on the bank’s Shariah risk management as a long-term investment in order to obtain high confidence level from the depositors or shareholders. The bank’s risk management should encourage the Shariah Committee to attend trainings, conferences, meetings and forums across the globe as a method for them to expose to the market developments and issues in the industry. Despite the Bank Negara Malaysia’s expectation that the Shariah committee must ensure compliance with Islamic rules at all times, their part as an advisor. They had to rely on moral persuasion which is inadequate to ensure compliance as lined up by the central bank. Without reinforcement of the task of the Shariah committee, the reports will continue to be highly motivated by the need to align with BNM guidelines. New blueprints will enhance the role of Shariah committee and improve the governance aspect of the Shariah committee decision. Previous studies showed more governmental regulatory intervention is growing and has increased public confidence in companies (Hasan, 2007). Much has been accomplished, but much more still needs to be done.

References


hajarsalwa@gmail.com
The Need for Credible Reporting of Shariah Non-compliance …


IFSB-3. (2006). Guiding principles on corporate governance for institutions offering only Islamic financial services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds), Islamic Financial Service Board 1–33.


hajarsalwa@gmail.com
Abstract The objective of this paper is to examine the concept and application of wasiyyah wajibah in the Islamic legislature, as well as assessing the effectiveness of its implementation in Malaysia and several other Islamic countries. The study is primarily qualitative whereby the source comes from library research and literature. It provides the focus of the topic. This study found that the law of wasiyyah wajibah was against the original concept of the Islamic inheritance system but was done under the concept of maslahah. Its application is still at an early stage although it was introduced in 1999 and became effective in 2004 in Selangor. Its enforcement is inconsistent among Islamic countries that practiced it. This paper suggests that it is necessary to introduce special provision on wasiyyah wajibah in other states in Malaysia, in the spirit of tackling neglect orphans and expedite distribution of inheritance following death.

Keywords Wasiyyah wajibah · Maslahah · Obligatory bequest

Introduction

Wasiyyah wajibah is a branch of knowledge that has a close relationship with inheritance but is rarely highlighted in society. Wasiyyah wajibah was initially introduced in Egypt in 1946 as a provision in a law known as the Code of Will. Then, its introduction was done in several other Arab countries such as Syria, Lebanon, and Morocco. Provisions were made based on cases whereby a person needs and lawfully eligible to inherit from his ancestor, but is hindered by certain reasons. Their rights are normally hindered because their father or mother predeceased their grandparents. Because of
this, they are removed from being heirs to their grandparents despite there are needs for them to be able to inherit especially since they are orphans.

The enactment of the *wasiyyah wajibah* aims to avert the orphaned grandchildren from poverty and financial strain. Besides, it was set up based on general issue (*maslahah umum*) that runs parallel with the era of revolution. In Malaysia, the law of *wasiyyah wajibah* is one with the least attention from scholars and the community. There is no specific clause referring to *wasiyyah wajibah* in the code of Wills in Malaysia except in Selangor, in the *Enakmen Wasiat Orang Islam* (Selangor) 1999, Malacca, and Negeri Sembilan in 2004. Other states have not introduced the provisions in their code of wills.

The term ‘*wajibah*’ is about obligation that is compulsorily executed by an individual, failing which, deliberate or not, legal action may execute on his/her behalf. In Islam early years, prior to the revelation of verses relating to inheritance, leaving a will was an obligation towards parents and close family. Therefore, they were obliged to bequeath a certain amount of assets to these people in their lives in the hope to bring cheer as well as to lighten their life struggles.

Then, verses on inheritance were revealed with clarity and detail, regarding the ratio of inheritance that could be bestowed upon different members of the family. Besides that, *hadiths* prohibiting bequest from family members prompted debates among scholars regarding bequest obligation. Scholars’ majority is of the opinion that verses on inheritance abolished the obligation to bequeath. Should a will be disputed among heirs, the will would be deemed void. Having said this, there are scholars who believe that the verses did not abolish bequest obligation, but they specify the rightful portions to be handed to different heirs. This aims to prevent certain rightful heirs, for instance, parents, from being isolated from a bequest process.

As such, several Islamic countries now include obligatory bequest (*wasiyyah wajibah*) in their inheritance bills which the only name orphaned grandchildren of the deceased as rightful heirs to *wasiyyah wajibah*, but not other family members that are not rightful heirs in the first place. According to some scholars, the appointment of the orphaned grandchildren as recipients of *wasiyyah wajibah* is a form of *ijtihad* that is based on current reality. However, there are differences, in determining the grandchildren who deserve the *wajibah* will, between Muslim countries.

**Definition of Wasiyyah Wajibah in Islam**

Linguistically, wasiat comes from the root word *wasa*, meaning to attach or to join, whereas the word *wassa* and *awsa* mean to make a promise and the words *al-wasiyyah*, *al-wisayah* and *al-wassah* are nouns for the words above (Anis et al., 1960). When we look at terminology, *wasiat* is giving or donating a property owned by an individual to another person or persons after the former’s death whether or not the word *wasiat* was mentioned (Shams al-Din Muhammad ibn Muhammad al-Khatib al-Sharbini, 1958). Egyptian Bequest Laws in 1946 defined *wasiat* as managing inheritance following the death of an individual (Umar Abd Allah, 1966).
Based on these definitions it can be understood that wasiat covers both obligatory and voluntary bequests and all other forms of bequest, be it monetary, property or other forms, since the word ‘manage’ comprises them all (Al-Siba’i, 1997). From its usage perspective, the word wasiyah or will has multiple meanings depending on the way it is used in the sentence. For example, when a will is associated with the estate, then it is about bequeathing one’s fortune to another person. When it is associated with orders such as orders for prayers and orders forbidding riba’ conveyed by Rasulullah pbuh before his passing, it is wasiyah that tells others to follow Allah’s guidance and when it is talking about ruler’s succession then it is about handing over power to certain individuals as successors (Ahmad al-Hajiyy al-Kurdiy, 1998). Wasiyyah or will in legal perspective is a legal agreement or testament stating wishes of the testator for how his wealth should be distributed upon his death.

**The Concept of Wasiyyah Wajibah in Islam**

Initially, the concept agreed among Islamic scholars regarding its obligatory bequest that they will need to be directed to both parents or close relatives, who are not entitled to the succession, without identifying the members of the family, the number or the rate at which they are eligibly entitled, only that they are set at only a third of the whole estate.

Now, wasiyyah wajibah provision in several Islamic countries has named orphaned grandchildren whose parents died prior to or simultaneously as the deceased grandparent as eligible recipients to the wasiyyah wajibah, without which, the inheritance would be given only to their aunts and uncles. They are given as a bequest and not as rightful inheritance at a pre-determined rate and conditions (Al-Mufashshi, 1996).

In the illustration above (Fig. 1), Rahim passed away before his father, Saiful, did. Because of this, Rahim’s children, Fatimah and Azhar are ashab wasiyyah wajibah meaning they are entitled to the obligatory bequest. In normal circumstances, both of them, Fatimah and Azhar, would not be entitled to their grandfather’s inheritance because there are aunt and uncle in the family, in this case, Rozi and Yusuf, who are the rightful heirs in the inheritance system. Therefore, knowing full well that the grandchildren would not be receiving his inheritance according to normal procedure, their grandfather has the responsibility to make a bequest to his orphaned grandchildren, but should not exceed the pre-determined rate for wasiyyah wajibah. However, the concept of wasiyyah wajibah may be slightly different in a different country, especially on the rightful recipient or the ashab wasiyyah wajibah.

In countries like Egypt, the ashab wasiat wajibah are identified as grandchildren from an agnatic lineage who lost their father before their grandparents, but the entitlement shall stop downward at the presence of a female in the lineage. If the deceased parent is the mother of the grandchildren, the wasiyyah wajibah is only entitled to the first generation of grandchildren while the rest after that are not categorized as ashab anymore (Abu Zahrah, undated).
In other words, it is specified to only the first generation of grandchildren of the predeceased daughter (أولاد البنات), also known as asawlad al-butun,\(^1\) while their children thereafter are excluded from being ashab wasiyah wajibah. On the other hand, the grandchildren from a predeceased son known also asawlad al-zuhur\(^2\) are considered ashab, thus they are eligible for wasiyyah wajibah regardless of their generation level as long as there is no female heirs in between. If there is a female in the lineage, the bequest stops at that female heirs, while its furu' are no longer included as ashab wasiat wajibah.

In some other countries like Syria, its provision for wasiyyah wajibah restricts its ashab to grandchildren of predeceased sons (أولاد البنين) regardless of their gender. The grandchildren from predeceased daughter and so on (أولاد البنات) are not eligible to receive the obligatory bequest.

**Wasiyyah Wajibah Through Islamic Scholars’ Perspective**

In discussing the obligatory bequest, it is crucial that the first verse mentioning inheritance in the form of wasiyyah be looked at. According to the verse, Allah SWT commanded that people make a will to their parents and close family members as shown in the verse below:

---

\(^1\) *Awlad al-Butun* are children of female descendents of the testator (*salbiyyah*).

\(^2\) *Awlad al-zuhur* are children of the male descendents of the testator as long as there is no female in between.
Meaning:

“Prescribed for you when death approaches [any] one of you if he leaves wealth [is that he should make] a bequest for the parents and next of kin reasonably. (It is) a duty upon the righteous.” (al-Baqarah 2: 180)

The verse above is a general reminder for all men to make a will, a deed of which gets rewarded in the hereafter. It is encouraged that we leave a will at either old age or at a sign of grave sickness whichever comes first.

However, scholars are of mixed opinion regarding this verse whether wasiyyah is still valid or has been abolished with the revelation of inheritance verses (Surah An-Nisa, 4:11; 4:12 and 4:176). On top of that, there is a hadith that prohibits bequesting towards heirs. Scholars’ views can be divided into three views, as follows:

(a) First view: Wasiyyah toward heirs was abrogated with the revelation of newer verses

Most of Islamic highly recommended nor prohibited for people who are not heirs. They are of the opinion scholars which are from the four main schools of thought, along with most of the close companions of the prophet (Sahabah) and Tabi’in (the generation of Islamic scholars who lived after the death of the prophet Muhammad pbuh and learned from the Sahabah) agreed that wasiyyah is not compulsory (Abu Muhammad Abd Allah ibn Ahmad ibn Qudamah, undated). Rather, it is something that is neither that the newer verses abrogated the obligation to make wills either to inherit the deceased’s property or otherwise. Thus, bequeathing to people other than the rightful heirs is considered a recommended act, not an obligation unless the deceased had debts or something that was entrusted to him (Ibnu Qudamah, undated).

Thus, the view is that the original mandate on wasiyyah for Muslims is abrogated with the new verses, and the act of bequeasting to heirs, who already have portions allocated to them is forbidden. Having said that, they are of the opinion that bequesting to heirs is dependent on the consent of other heirs. This is based on the hadith narrated by Ibn Abbas, which pointed to the Prophet, saying:

لا يجوز وصية لوارث إلا أن يشاء الورث

Meaning:

“It is not necessary to bequeath to heirs unless unanimously agreed by other heirs”

Thus, bequeathing is preferably done to close family members who are no theirs, meaning those in the following sequence of priority, first, mahram family (such as blood-related aunts or uncles), then the non-mahram family (stepparents, cousins, uncles or aunts who are related by marriage), then family who are related due to breastfeeding, family because of marriage, neighbours and then, distant family.
(b) **Second view: Wasiyyah verse was not abrogated, but was clarified further by newer verses**

The second view is an opinion shared by Abdullah ibn Abi Awfa, al-Zuhri, Talhah bin Mutarrif, al-Sha’bi, al-Zubayr, and others, which is, the new verses did not nullify the verse on bequests that came before them (*Al-Baqarah, 2:180*), rather they further clarify the verse. According to them, this is because the word ‘*kutiba*’ that is found at the beginning of the verse reflects an obligatory mandate to bequeath. Besides, the verse was reinforced at the end that it is ‘a duty among the pious’. No other decree of temporary nature, from Allah Ta’ala, has such emphasis as that in this verse. Therefore, the verse is thought to have not been abrogated. In fact, according to most *mufassirin* among the *salafs*, bequeathing to parents and immediate family is a duty, based on this verse (Abu Bakr Ahmad al-Razi al-Jasas, 1993).

According to the *fuqaha*, it is out of the ordinary to abrogate verses with decrees, and verses that were abrogated had no such emphasis in them. On top of it, the alleged abrogation would have occurred in a short period of time, which did not make a lot of sense. In summary, it can be concluded that the second school of thought holds to the belief that the *wasiyyah* verse in Surah Al-Baqarah was not revoked either by the revelation of newer verses on inheritance or by *hadith*. Thus, according to this view, it is a responsibility for those with wealth, be it little, to bequeath to the family whether or not they are entitled to it.

(c) **Third view**

The third view is of Ibn ‘Abbas, in one of his opinion, al-Hasan al-Basri, Masruq, Tawus, Sa’id bin al-Musayyab, Muslim bin al-Yasar, Qatadah, Dawud, Ibn Jarir al-Tabari, Abu Muslim al-Asfahani, Ibn Hizam, Imam Ahmad, Imam Syafi’i in Iraq (Qadim Sect) and others. It points towards the revelation of the newer verses being relevant only towards certain heirs and not all rightful heirs. They highlighted the fact that the *wasiyyah* verse is of *muhkam* (Zuhayli, 1995). Despite the general appearance on the surface, the meaning is rather specific. It specifies the need to do it to parents and close family, including those hindered from receiving, due to reasons mentioned above. In other words, to leave *wasiyyah* is an obligation to those being hindered from inheriting (Rashid Rida, 1954).

According to Abu Muslim al-Asfahani, there are several factors justifying the view that verses on inheritance did not revoke *wasiyyah* verse (*Al-Baqarah, 2:180*), some of which are as follows:24

i. *Wasiyyah* verse does not contradict the inheritance verses as the former can be translated as ‘It has been prescribed onto you, when death approaches one of you (and that you have some property behind you), that you bequeath (make a will) accordingly to your parents and kinsfolk, so that you honour the obligation decreed by Allah Ta’ala and that you do not reduce any of the portions.’

ii. Decree on inheritance distribution among kinsfolk does not deny the decree of *wasiyyah*, with the division of inheritance being, in accordance to *faraid*, blessings from Allah Ta’ala and *wasiyyah* being gifts from an individual facing death.
iii. If there are disclaimers or conflict between verses of inheritance and the wasiyyah verse, then it can be said that the inheritance verses describes the wasiyyah verse in more detail. This is because the wasiyyah verse only highlighted the obligation to leave wasiyyah (will) for family, whereas the inheritance verses specify the correct portions for certain family members. This leaves the rest of family members, not mentioned in the inheritance verses, in the wasiyyah verse. Family members who are of different religion, a slave or a murderer are not heirs in the Islamic legislation. Therefore, for these individuals, it is encouraged that we leave wasiyyah to them in order to keep the family ties, whilst to heirs; wasiyyah is not encouraged as much.

Ibn Hazm opined that every Muslim is obliged to bequeath to next of kin not entitled as heirs either because they are servants, non-Muslims or simply hindered because of their position in the family tree. Therefore, bequeathing a portion to them would soothe them and keep the family in harmony. If the deceased refused or forgot to do so, the majority of the salaf scholars think that the beneficiaries should carry out the obligation on his behalf.

The scholars further argued upon the fact that there is no verse in the Al-Quran that contradicts the bequeathing verse to the point that the verse can be said to have been revoked. Therefore, it is inappropriate for someone to suggest that it has been revoked either by hadith, consensus (ijma’) or qiyas. On top of that, the wasiyyah verse can be combined with the inheritance verses without any contradiction, which, according to scholars, a verse being revoked could not do without conflicting each other.

To sum up, the third view is of the opinion that the wasiyyah verse was neither revoked by inheritance verses nor by hadith or ijma’. Rather the inheritance verses are more detailed in nature and specific towards close family members such as parents and children.

(d) Tarjih

The author is of the view that, the view of the majority of fuqaha’, which holds the belief that bequeathing is not prohibited for other than heirs, is the most acceptable (rajih) opinion with concrete arguments that look at several factors:

i. There is no Hadith sahih (valid) that describes the act of bequeathing towards certain quarters after the revelation of inheritance verses but there is a Hadith forbidding bequeathing to apparent heirs. In addition, according to Usul scholars, a hukum must be based on clear nas (source).

ii. In Islamic jurisprudence during the eras of the Prophet, the al-Rasyidin Caliphate and other Caliphates of Islam, there is no commandment specifically for bequeathing as there are for fasting, solah, and pilgrimage. In addition, there is a lack of sahih narration from the companions (Sahabah R. A.) relating to doing a wasiyyah out of obligation, rather, they were done out of their own accord to nurture family ties.

iii. If we look at the sequence of commandments, the wasiyyah verse (2: 180) was revealed first, to stop the practices of the Jahiliyyah when it comes to distributing...
their wealth. This is then followed by verses of inheritance (4:11, 4:12 and 4:176) which describes the wasiyyah verse in more detail via the concept of al-tadarruj (in stages). As time went by, during the time of Hajj al-Wada’ (farewell pilgrimage), the wasiyyah verse was abrogated based on the saying of the Prophet that bequeathing to heirs is prohibited entirely.

However, a permissible law (hukum) may be turned compulsory by the authority in order to tackle serious issues (maslahah). Method of fiqh (qawaid fiqhiyyah) mentioned:

Meaning:

"Government’s action for its people safeguards public interests (maslahah)"

Based on that, several Muslim countries today invented the clause which obliges Muslims to bequeath certain unfortunate quarters in the family, known as the Law of Wasiyyah Wajibah. Countries with this ruling include Egypt (Egypt Wasiyyah Bill 1946, Article 76–79), Syria (Syrian Bills 1953, Article 257), Pakistan (Pakistan Muslim Family’s Bill 1961, clause 4) and several others. Thus, based on fiqh, Muslims are not entitled to dispute a law determined by leaders of a nation that looks upon the best interests of the public.

**Will Legal Laws in the Federal Constitution**

In Malaysia, the administration of wills is governed by two branches of law, civil and Islamic laws. Under the civil court, the administration of wills is regulated by Will Act 1959 and Probate and Administration Act 1959. The Syariah Court, which is under state legislature, has no specific act or enactment to govern inheritance matters, apart from those in the main administrative act except for Selangor which gazetted the Enactment of Will for Muslims in 1999 (Rahman, 2002).

According to the Federal Constitution, estate administration and distribution are in the scope of work and jurisprudence of every state as stated in the Senarai 2(1), Jadual Kesembilan, Perlembagaan Persekutuan (Federal Constitution). It grants power to the states, to deal with personal and family law, converts, wills others. The Shariah court only has jurisdiction against Muslims and matters listed in the Senarai 2, Jadual Kesembilan. The Federal Constitution determines the jurisdiction of Shariah Court and Islamic law practiced in every state in Malaysia such as those involving personal and family matter of Muslims including bequest, betrothal, marriage, divorce, dowries, adoption, custody, distribution of wealth and bestowing of trust, waqaf, appointment of trustees, trust funds, khairat, tithe, bajulmal, etc.
Although succession matter is under the state’s Shariah court scope of work, probate\(^3\) and letter of administration\(^4\) are still under civil court (Federal List). Section 46 of the Administration of Islamic Laws (Federal Territories) Act 1993 talks about Jurisdiction of Syariah High Court in Federal Territories including:

(a) the division of, or claims to, harta sepencarian;
(b) wills or death-bed gifts\(^5\) (marad-al-maut\(^6\)) of a deceased Muslim;
(c) gifts inter vivos, or settlements made without adequate consideration in money or money’s worth, by a Muslim;
(d) Waqaf or nazr;
(e) division and inheritance of testate or intestate property;
(f) the determination of persons entitled to share the estate of a deceased Muslim or of the shares to which such persons are respectively entitled; or
(g) Other matters within the jurisdiction.

Therefore, the Shariah Court’s jurisdiction is mostly about determining the persons entitled to part of the estate of a deceased Muslim and the exact portion those individuals are entitled to. The underlying issues surrounding the State’s Shariah Court Enactment is the lack of special provision in it regarding wasiyyah except in Selangor whereby there is Enactment of Muslims’ Will 1999. In the Enactment of the Shariah Court Administration of Kelantan 1982, Sect. 9 (2), it mentioned that the Shariah Court shall hear cases pertaining to probate when referred by Civil Court or Penyelesaian Harta Pusaka Kecil, especially when disputes among beneficiaries arise (Ahmad Ibrahim, 1999).

### Law Provision on Wills in State Enactment

An effort towards more specific and detailed clauses on wills, as had been done in several Muslim countries, has been successfully implemented in Selangor on 15th September 1999. Up till now, only Selangor has provisions on Muslims’ will in the Enakmen Wasiat Orang Islam (Selangor) 1999. In the said enactment, there is one specific provision with regard to wasiyyah wajibah in part VIII, Sect. 27 (1), (2) and (3).

The meaning of wasiyyah wajibah is not provided by this enactment, but it can be understood as an obligatory bequest decreed by law. This means that if the deceased did not make a will to the interested party, therefore the legislature would provide one on his behalf.

\(^3\)A court order that grants power to an executor, appointed by the deceased in his will, to distribute his estate/wealth accordingly.

\(^4\)A court order that grants power to the nominee according to the Islamic law.

\(^5\)‘Alang’ is a gift given by a person to another.

\(^6\)Marad-al-mautialah is a form of illness that might bring a person to the end of his life, be it in an instant or a long and aggravating one.
As mentioned before, a will is optional known as the will of *iktiyariyyah*. On the other hand, the *wasiyyah wajibah* is rather compulsory and was first introduced through Egyptian Wills Act 1946, Article 76, 77, 78 and 79. It was later followed by Syria in the Syrian Wills Act 1953, article 257 and other countries like Jordan, Morocco, and Pakistan.

In the context of *wasiyyah wajibah*, the provision limits the will toward grandchildren and not to other family members who are not entitled to inheritance. Such specificity raises questions as to the basis referred to by Islamic jurisprudence. According to certain scholars, the selection of grandchildren as beneficiaries to *wasiyyah wajibah* is a form of *ijtihad* based on current reality. Having said that not all orphaned grandchildren are destitute and not getting help from other family members, that they need the *wasiyyah wajibah*. Therefore, its necessity in Selangor can be questioned, whether its introduction was based on problems faced by the Muslim community in Selangor simply following other countries’ footsteps. This can only be answered by the lawmakers of the provision.

Selangor is the first State in Malaysia to introduce the *wasiyyah wajibah* clause in the *Enakmen Undang-Undang Wasiat Orang Islam* (Selangor) 1999, in part VIII, Sect. 27 (1), (2) and (3). The clause details on the eligible recipient or *ashab* of the *wasiyyah wajibah*, the rates and terms and conditions that apply. The downside of this provision is that its application is limited to the Muslims of Selangor, not to other Muslims in the country since the Shariah jurisprudence is separate and unique to every state in the country. It is pertinent that other states follow suit since the purpose of it is to safeguard the welfare of orphaned children. Another downside is that it is not as widely known, making its usage to be less than optimal. A research looking at the number of orphaned grandchildren who did not benefit from *wasiyyah wajibah* since its introduction would be an eye-opener as to how little Muslims in this country, especially Selangor, are aware of this clause.

### The Concept of Wasiyyah Wajibah in Selangor’s Enactment

One of the uniqueness of Islamic wealth management is the practice of bequeathing. A will is a form of gift by the testator to certain quarters based on certain terms and pillars. It aims to preserve the welfare of a certain quarter in the event of the death of the testator. The bequeathing practice fosters good family ties among kinsfolk as long as it was done the proper and Islamic way. Bequeathing in Islam is recommended or optional (*ikhtiyariyyah*), however, this other form of will known as *wasiyyah wajibah* or Obligatory Bequest, is obligatory in nature, as the term implies.

*Wasiyyah wajibah* or obligatory bequest is a legal ruling determined by the supreme ruler to grant a certain portion of inheritance towards a specific group in a family institution. More specifically, the *wasiyyah wajibah* provision grants not more than a third of a grandparent’s inheritance towards the grandchildren whose parent died prior to, or at the same time as the grandparent’s demise. The concept of *wasiyyah wajibah* or obligatory bequest featured by contemporary scholars of Islam
today intends none other than to safeguard the interest and welfare of orphans. They should be given the necessary attention and support, particularly financial support in tandem with the teachings of Islam.

Efforts towards establishing the law of wills in depth as has been done in several Middle Eastern Islamic countries, bore fruits especially in Selangor in the Enactment No. 4 (1999), Negeri Sembilan in the Enactment No. 5 (2004) and Malacca in the Enactment No. 4 (2005). To date, only those three states in Malaysia provide wasiyah wajibah or obligatory bequest in Enactment of Muslim Wills. In the Enactment, there is a specific provision regarding wasiyah wajibah which can be obtained in Part VIII, Sect. 27 (1), (2) and (3).

The definite meaning of wasiyah wajibah is not provided by this enactment, but it can be understood from the provisions that it is a will obligatorily be bequeathed using power of attorney. In other words, if a deceased did not leave a will, then the law has the power to distribute the deceased’s inheritance on his or her behalf.

Selangor was the first state in Malaysia to include the provision of the obligatory bequest in the Muslim Wills (Selangor) Enactment No. 4 (1999). The provision specifically names members of the family who are ashab to wasiyah wajibah, meaning people who are entitled to it, the ratio of wasiyah wajibah and its terms. Enactment No. 4 (1999) part VIII Wills Wajibah states that, in Sect. 27:

(1) If someone (grandfather or grandmother) dies without a bequest to his/her grandchildren of a predeceased son or a son who died simultaneously with him/her, then the grandchildren are entitled to a third of his inheritance, and if the grandchildren are given less than one-third, their rights shall be executed in accordance to the rates or portions outlined by wills of wajibah provided in this section of the enactment.

(2) Rate or portion of wasiyah wajibah for grandchildren stated in subsection (1) should be as much as the portion their father is entitled to the estate of the grandfather, if he were still alive, provided that it does not exceed one-third of the estate of deceased grandfather.

(3) The said child is not entitled to the wasiyah wajibah if he had inherited from his grandmother or grandfather, either during the latter’s lifetime, without them receiving anything in return, they have left a will on the child’s name or that they have given a portion of their wealth equivalent to the child’s entitled portion under wasiyah wajibah during their lifetimes. If the will made by the grandfather or the grandmother is less than their entitled portion, their entitled portion should be honoured by giving them the inheritance accordingly and if the portion the child had received in the past exceeded his entitled portion, the exceeded portion should be deemed voluntary bequest, subject to agreement by other beneficiaries.

Provisions of the law of wills are limited and needs proper analysis so that they meet their original purpose which is to safeguard the interest and welfare of the orphans. This enactment applies only to the Muslims of Selangor, does not involve other states and came into effect on a date determined by the Royal Highness, notified in the Gazette.
The Importance of Wasiat Wajibah Law in Malaysia

As has been mentioned previously, wills, in general, are only *ikhtiyariyyah* in nature, or a choice made by the deceased during his lifetime to certain individuals who are not beneficiaries, entitled to his inheritance. If the will is addressed to a beneficiary who has already received a portion of his inheritance, the will is void unless other beneficiaries agree.

However, the concept of obligatory bequest introduced by several Muslim countries, including several states in Malaysia is leaning towards the interests of heirs who are not entitled to an inheritance, due to several particular reasons, especially grandchildren of the deceased who lost their parents earlier on. They are hindered from receiving an inheritance from their grandparents by other relatives.

The purpose of enacting the law of obligatory bequest (*wasiyyah wajibah*) is to solve welfare issues surrounding orphans in the Muslim community by looking after their interests. Usually, children whilst parents are left uncared for by the family of the deceased parent. It is as if the ties that bind them unwound it following the death of that parent. Therefore, it is wise for grandparents to bequeath a portion of their estate to these orphans so that the relationship can be restored and at the same time, shows appreciation of the parents’ sacrifices while they were alive.

However, the question that may arise is how important the obligatory bequest law provision is in Malaysia’s legal setting. Is it a necessity that could overcome problems faced by the Muslim society or is it just there following other Islamic countries’ legislature? The author is of the opinion that the enactment of obligatory bequest bill is a huge necessity in the current Muslim society setting, when materialism trumps everything else, even family values. Its enactment may uphold a family’s responsibility, when it is ignored, guide the Muslims on the right and responsible paths and hopefully foster good relationship among the parties involved.

Conclusion

The paper only focuses on the application of the bill of *wajibah* wills in Malaysia particularly Selangor since it is the only state that has the bill enacted in the Selangor’s Muslim Will Enactment 1999. After examining the application of obligatory bequest law in Selangor and comparing its provision with that in Egypt and Syria, it can be concluded that its enactment in Selangor was too unspecific especially in determining *ashab wasiat wajibah*. Not only that, there are several issues that require further attention such as whether there is a need to put an age limit on the willing recipient or in the event that there are two wills existing at one time.

Thus, the question that may arise from this provisioning Selangor is whether the obligatory bequest bill has the potential to tackle and solve inheritance issue within the Muslim community in the state especially with regards to the welfare of either paternally or maternally orphaned grandchildren of the deceased. For this reason,
it is strongly recommended that the Selangor legislature and other state legislators intending to introduce this provision to re-evaluate and be more specific when it comes to laying out the clauses so that the objectives can be met and its application is smooth.

Leaving a will or a gift that takes place on the giver’s passing is a good effort and kindness that gets duly rewarded in the hereafter. It is commendable, with the blessings from Allah SWT, for Muslims to make good use of and distribute their wealth with the intention to uphold family ties and to assist society economically. The concept of bequest, motioned by Islam and thoroughly researched by its scholar, has a wide scope yet detailed discussion. However, discussions among Islamic scholars focus more on two angles namely ikhtiyariyyah will and wajibah will.

It can be included; from a thorough analysis of the bills of wajibah wills in Muslim countries, that there are similarities and differences in the application, particularly on grandchildren that are eligible for the will of wajibah and approaches towards the solution. However, the adoption of the bill in Pakistan is quite different compared to other Islamic countries. In Pakistan, grandchildren are placed under legal succession, causing a conflict with the concept of inheritance in Islam.

Acknowledgements This study is conducted through a grant by the Ministry of Education Malaysia (MOE) channeled to Universiti Sultan Zainal Abidin (UniSZA), Malaysia (RAGS/1/2014/SS07/UNISZA/3).

References


hajarsalwa@gmail.com


Abstract There are still lacking of studies of Project Management (PM), which include the Islamic theory and practices. The studies on Islamic Project Management (IPM) revolve around and focus on specific topics areas such as contracts from the perspective of Islam. Apparently, there are also few studies on the IPM or anything related to that. This chapter in the book is to forward the themes and patterns in the Quran which mention the elements of PM. It is achieved by extracting from the Quran (the Holy Book of the Muslims) of the words of the key elements of PM theory and practices. It is conducted based upon three dimensions: (i) studying the text of Qur’anic āyahs (verses) regarding the concepts, (ii) analyzing the frequent patterns or features of the text, and (iii) investigating the thematic characteristics of expressions. The contextual meaning of the PM elements in the Quran explains vividly the phenomena of the main project management concepts, theories, and practices. The chapter is expected to contribute knowledge to the theory and practices of PM from the perspective of the Quran in the form of themes and patterns. Future research encircles around the research areas that will potentially drive the development of the model of IPM in the general context of theories and industries practices.

Keywords Project management · Islamic project management · Quran · Theories · Practices · Themes · Patterns

Introduction

There are not many studies on Project Management (PM) from the Islamic perspective. There are studies by Mastura (2010) revolves around the issues of the contract has enlightened the Islamic viewpoint on contracts in PM practices. Apparently, there are few studies on the Islamic Project Management (IPM) or anything related to that.
The purpose of this chapter is to highlight that the theories and industry practices of PM also exist in the verses of Al-Quran (the holy book of the Muslims). This chapter also highlights the themes and patterns existed in the Quran, which explain vividly the phenomena of PM theories and industries practices.

The existing theories and practices of PM enlarge the current meaning of the knowledge areas in PM as mentioned in the guidelines; PMBOK (2013) by Project Management Institute (PMI), ICB (2006) by the International Project Management Association (IPMA), APMBOK by American National Standardization Institute (ANSI), P2M by ENNA, PRINCE by the CTTC, the methods by ISNA, Prince by the American National Standardization Institute (ANSI), and the standards, International Standardization Institute (ISO). The elements taken from the PM guides, methods, and standards are Project Life Cycle (PLC), project management, program management, portfolio management, product management, interpersonal skills, tools, and techniques, leadership conflicts negotiation, health, safety and environment, scope management, integration management, time management, cost management, risk management, communication Management, quality management, human resource management, and procurement management (Abdullah et al., 2012; PMBOK, 2013).

In this respect, PMBOK (2013) in explaining PM of Stakeholders, the verse of the Quran brought forth the stakeholders are those who are the interested parties who know the project requirement based of the information given. However, the stakeholders are unable to know information or knowledge, which is unknown.

The strikingly interesting is the meaning of PM of time which mentioned more than 17 times the Quran. Time from the Quranic views cannot be neglected from the context of the Islamic perspective. This chapter puts forward the themes and patterns in the Quran, which mentioned the elements of PM. It highlights the project and PM defined, elements of Islamic Project Management (IPM), themes, and patterns derived from the extraction output, and the conclusion transpires from the extraction of the elements of PM.

**Project and Project Management Defined**

“A project is an organization of people dedicated to a specific purpose or objective. Projects generally involve large, expensive, unique, or high-risk undertakings which have to be completed by a certain date, for a certain amount of money, with some expected level of performance. At a minimum, all projects need to have well-defined objectives and sufficient resources to carry out all the required tasks. As defined in A Guide to the Project Management Body of Knowledge (PMI, PMBOK® Guide, 2000), a project is a temporary endeavor undertaken to create a unique product or service. Temporary means that every project has a definite beginning and a definite end. Unique means that the product or service is different in some distinguishing way from all other projects or services. Declerck et al. (1983, 1997) illustrate the political perspective of projects in this way: “a project is a whole of actions limited in time and space, inserted in, and in interaction with a politico-socio-economic environment,
aimed at and tended towards a goal progressively redefined by the dialectic between
the thought (the project plan) and the reality.” Gittinger (1972) defines projects as
a whole complex of activities involved in using resources to gain benefits. Gittinger
(1982) explains that generally, projects form a clear and distinct portion of a larger,
less precisely identified program.

The project is an activity for which money will be spent in expectation of returns
and which logically seems to lend itself to planning, financing, and implementing
as a unit. It is a specific activity, with a starting point and a specific ending point,
intended to accomplish specific objectives. Often a project has a partially or wholly
independent administrative structure and set of accounts and will be funded through
a specially defined financial package.

As maintained by Nilsson & Söderholm (2005), planning and plans are intrinsic
features of projects. Plans are meant to constitute and guide project team members
as they work on realizing whatever project goals that have been set out for them.
A plan can, however, only have a certain degree of sophistication. When project
management practices on a day-to-day basis are examined, plans seem to dissolve
and become less prescriptive. Project management is the application of a collection
of tools and techniques (such as the CPM and matrix organization) to direct the use
of diverse resources toward the accomplishment of a unique, complex, onetime task
within time, cost, and quality constraints (PMI, 2013).

Elements of Project Management Theories and Practices

There contrast differences among the project management standards, guidelines, and
methods. The underlying difference can be translated in the form of a comparative
matrix. The matrix is described in terms of scope developed through comprehensive
analysis based on the review of literatures. The most common project management
elements extracted from the matrix are project management, scope management,
time management, cost management, human resource management, communication
management, risk management, stakeholders, and procurement management. Over
the years of introducing project management for the first time as a scientific method
and practice, numerous project management standards, guides, and methodologies
have been developed and introduced in order to meet all the requirements and needs.
Hence, comprehensive review of the literatures on the different methodologies, stan-
dards and guidelines, and comparative analysis of these information was lacking in
this area to provide the practitioners and project managers with the best information
on what are the differences of these standards and which standards to select and
implement to fulfill and meet all the requirements of a specific project.

hajarsalwa@gmail.com
Elements of Islamic Project Management

The elements of Islamic Project Management (IPM) is identified and examined by extracting from the Quran (the Holy Book of the Muslims) of the words of the key elements of PM theory and practices. These elements are organized based upon three dimensions: (i) studying the text of Qur’anic āyāhs (verses) regarding the concepts, (ii) analyzing the frequent patterns or features of the text, and (iii) investigating the thematic characteristics of expressions.

The elements of Islamic project management is organized in terms of the keyword or root works selected from project management theory and practices worldwide. The extraction from the Qur’ān, unique themes, and patterns was discovered and identified. The findings of the analysis were arranged according to the definition of the most common theories and practices of project management worldwide. The keywords that identified through the thematic process gather from the extraction from the verses of the āyah in the Quran were then selected and reorganized into the nine concepts of PM is the commonly used guide, the PMBOK.

These concepts are project management, scope management, time management, cost management, human resource management, communication management, risk management, stakeholders, and procurement management. The subsequent sections in the chapter describe the following unique and outstanding finding.

Table 1 indicates the Quranic verses related to project management. According to this table, two keywords for the concepts of project management were found. The first keyword is under the letters ش - ر - ع (plan) is encountered in the first three Quranic verses. The second keyword is built from the word (organize; plan). د - ب - ر. It means in general terms of project management as mentioned in the Quran is that Allah has ordered a way on how the project should be planed, organized, and managed.

According to Table 2, four keywords for the concepts of scope management were found. The first keyword is under the letters د - ر - س (study) which is encountered in the first two Quranic verses. The second keyword is built from أ - د - ر - ل - م which means carry out. The third keyword underlines ع - ب - ر (ponder). The fourth keyword displays the letters ع - ل - م (teach; know). In other words, these verses describe that the scope management in the perspective of the Quran is the carrying out the study and teaching or guiding. The meaning scope management within the context of the Quran is contrast with the meaning scope management which is the processes required to ensure that the project includes all work required, and only the work require, to complete project successfully in the PM as forward by PMBOK (2004).

According to Table 3, it is believed that the Quranic verses for time management should be portrayed in a list of keywords as follows:

(a) The word كامنة (complete) in the first Quranic verses, and the word كامنة in the second example.
(b) The word لوقف for the meaning of (time).
(c) The word ميقات for the meaning of the appointment.

hajarsalwa@gmail.com
Table 1 Quranic verses for project management

<table>
<thead>
<tr>
<th>Verses from the Holy Quran</th>
<th>Translated verses of the Holy Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>42:13 شرع لكم من الدين ما وصي به نوح</td>
<td>He has ordained for you of religion what He enjoined upon Noah</td>
<td>He has ordained Plan/organize</td>
</tr>
<tr>
<td>42:21 أم هل ف شركاء ضوعوا لكم من الدين ما لم يأذن به الله</td>
<td>Or have they other deities who have ordained for them a religion to which Allah has not consented?</td>
<td>who have ordained Plan/organize</td>
</tr>
<tr>
<td>45:18 ثم جعلنا على شريعة من الأمم فاتبعها</td>
<td>Then We put you, [O Muhammad], on an ordained way concerning the matter [of religion]; so follow it</td>
<td>an ordained way Plan</td>
</tr>
<tr>
<td>10:3 ثم استوى على العرش يقدر الأمر</td>
<td>And then established Himself above the Throne, arranging the matter [of His creation]</td>
<td>Plan, organize, manage</td>
</tr>
</tbody>
</table>

(d) The word مؤقتٍ for the meaning of indicators of periods.
(e) The word مؤتعِل for the meaning of onetime in singular form and مؤتعِل in dual form.
(f) The word مستمرٍ for the meaning of continuing or continuous.
(g) The word فتراتٌ for the meaning of (after) an interval (of cessation).
(h) The word سنة for the meaning of term.
(i) The word الميعاد and مؤوعد for the meaning of appointment.
(j) The word ساعة for the meaning of an hour.
(k) The word والعملٍ for the meaning of by the time.
(l) The word أجل for the meaning of a term.
(m) The word مؤتَمٍ for the meaning of determined.
(n) The word المدة for the meaning of time.
(o) The word البُث for the meaning of a time.
(p) The word حينِ for the meaning of (at) that time.
(q) The word آمنًا for the meaning of (in) time.

It is crystal clear that time is a vital element in the management as it mentioned more than 17 times in the Quran. The thematic meaning of time brought forth insight of time, which is the appointments, indicators of periods, continuous, interval, and determined. These meanings display the breakdown aspect of elements of time, which is crucial in project management.


<table>
<thead>
<tr>
<th>Verses from the Holy Quran</th>
<th>Translated verses of the Holy Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3:79</td>
<td>Be pious scholars of the Lord because of what you have taught of the Scripture and because of what you have studied</td>
<td>studying (it)</td>
</tr>
<tr>
<td>7:169</td>
<td>Was not the covenant of the Scripture taken from them that they would not say about Allah except the truth, and they studied what was in it?</td>
<td>while they studied</td>
</tr>
<tr>
<td>2:282</td>
<td>Except when it is an immediate transaction which you conduct among yourselves</td>
<td>you carry out</td>
</tr>
<tr>
<td>38:29</td>
<td>[This is] a blessed Book which We have revealed to you, [O Muhammad], that they might reflect upon its verses</td>
<td>that they may ponder Monitor</td>
</tr>
<tr>
<td>2:13</td>
<td>Unquestionably, it is they who are the foolish, but they know [it] not</td>
<td>they know</td>
</tr>
<tr>
<td>2:22</td>
<td>So do not attribute to Allah equals while you know [that there is nothing similar to Him]</td>
<td>[you] know</td>
</tr>
<tr>
<td>11:6</td>
<td>And He knows its place of dwelling and place of storage</td>
<td>And He knows</td>
</tr>
<tr>
<td>56:62</td>
<td>And you have already known the first creation, so will you not remember?</td>
<td>you know</td>
</tr>
<tr>
<td>2:31</td>
<td>And He taught Adam the names—all of them. Then He showed them to the angels</td>
<td>And He taught</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Verses from the Holy Quran</th>
<th>Translated verses of the Holy Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2:32笳أنا مسيح الناقة لا عمَّم لنا إلا ما علمتنا</td>
<td>They said, “Exalted are You; we have no knowledge except what You have taught us”</td>
<td>You have taught us</td>
</tr>
<tr>
<td>2:102وَلِكُلِّ شَيَاتٍ كَثِيرٍ يَعْلَمُونَ الْثَّامِنَ الصِّحَاحَ</td>
<td>But the devils disbelieved, teaching people</td>
<td>they teach</td>
</tr>
<tr>
<td>2:129يُتَّلُو عَلَيْهِمْ آيَاتُكَ وَيَعْلَمُونَ الْكِتَابَ وَالْحُكْمَةَ وَيَضِيعُهُم</td>
<td>Just as We have sent among you a messenger from yourselves reciting to you Our verses and purifying you and teaching you the Book and wisdom</td>
<td>and will teach them</td>
</tr>
<tr>
<td>2:251وَأَقِمْ الْإِلْهَأَنَّ الْأَمْثَالَ وَالْحُكْمَةَ وَعَلَّمَهَا مَا نَبَأَهَا</td>
<td>And Allah gave him the kingship and prophethood and taught him from that which He willed</td>
<td>and taught him</td>
</tr>
<tr>
<td>Table 3  Quranic verses for time management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verses from the Holy Quran</td>
<td>Translated verses of the Holy Quran</td>
<td>Remarks</td>
</tr>
<tr>
<td>Time management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:196 [Those are ten complete [days] in all</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:233 [Mothers may breastfeed their children two complete years] complete</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15:38 [Until the Day of the time well-known]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>56:50 Are to be gathered together for the appointment of a known Day</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:189 They ask you, [O Muhammad], about the new moons. Say, “They are measurements of time for the people and for Hajj” (are) indicators of periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:229 Divorce is twice. Then, either keep [her] in an acceptable manner or release [her] with good treatment (is) twice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17:7 And to enter the temple in Jerusalem, as they entered it the first time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>54:19 Indeed, We sent upon them a screaming wind on a day of continuous misfortune</td>
<td>continuous</td>
<td></td>
</tr>
<tr>
<td>5:19 O People of the Scripture, there has come to you Our Messenger to make clear to you [the religion] after a period [of suspension] of messengers (after) an interval (of cessation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:4 So complete for them their treaty until their term [has ended]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8:42 If you had made an appointment [to meet], you would have missed the appointment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Verses from the Holy Quran</th>
<th>Translated verses of the Holy Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>20:59</td>
<td>[Moses] said, “Your appointment is on the day of the festival when the people assemble at mid-morning”</td>
<td>Your appointment</td>
</tr>
<tr>
<td>16:61</td>
<td>And when their term has come, they will not remain behind an hour, nor will they precede [it]</td>
<td>an hour</td>
</tr>
<tr>
<td>103:1</td>
<td>By time</td>
<td>By the time</td>
</tr>
<tr>
<td>22:33</td>
<td>For you the animals marked for sacrifice are benefits for a specified term</td>
<td>a term</td>
</tr>
<tr>
<td>145:3</td>
<td>And it is not [possible] for one to die except by permission of Allah at a decree determined</td>
<td>determined</td>
</tr>
<tr>
<td>76:1</td>
<td>Has there [not] come upon man a period of time when he was not a thing [even] mentioned?</td>
<td>time</td>
</tr>
<tr>
<td>7:24</td>
<td>And for you on the earth is a place of settlement and enjoyment for a time</td>
<td>a time</td>
</tr>
<tr>
<td>56:84</td>
<td>And you are at that time looking on—</td>
<td>(at) that time</td>
</tr>
<tr>
<td>12:18</td>
<td>Then We awakened them that We might show which of the two factions was most precise in calculating what [extent] they had remained in time</td>
<td>(in) time</td>
</tr>
</tbody>
</table>
According to Table 4, we suggest two keywords for cost management from Quranic view. The first word goes to the keyword تَمَنُّ or قَلِيل. The combination of both words justified the meaning of small and reduced price. The second word is displayed by the keyword أَنفَقَاء and the appearances might be varied in forms: أنفقوا، أَنفَقُوا، يُنفَقُونَ. Cost management in the context of the Quran is about spending for a price. This meaning is truly consistent with the concept of cost management, which includes the processes involved spending at the price after completing estimation, budgeting, and controlling of cost as mentioned in the PMBOK (2008).

According to Table 5, it is suggested that there are three major keywords of quality management from Quranic view. The first word remarks the concept “separate” by the word يَمِيز. The second concept retold us of standing apart by the word يَخُصُّ. The third concept defined the meaning of exclusively by the word خاصَةٌ and يَخُصُّ. The thematic meaning Quran indicated for quality management is defined as the concept of separation, stand apart and has to be exclusively acceptable. The meaning is deeper with concept brought forth by PMBOK (2008) which is performing the quality processes to satisfy the needs and requirement for the project. Likewise, the intense meaning of quality management does not only satisfy the needs of requirement of the customers but it has to be exclusively separated and stand apart as mentioned in the Quran.

According to Table 6, we chose the meaning of “attribute” and “describe” from Quranic verses يَصِفُونَ and يَصِفُونَ to describe the communication management from Quranic view. After extracting the entire Quran, it is discovered that the thematic meaning of communication management is related to attribution and description as the sole distinctively ways that interaction actually should portray. It brings the meaning that communication management within the context of Quran is directly attributed and described by the way of the Quran has ordained. PMBOK (2008) describes project communication management primarily includes the processes required to ensure timely and management of project information where the project managers have to allocate most of their time communicating both team members and project stakeholders internal and external to the organization. The Quran has enhanced the meaning of project communication management more than just required timely and management of information but these processes have to be in accordance with what is attributed and described by the Quran.

According to Table 7, two keywords regarding human resource management in the Quran are suggested. It can be clearly seen that the word (human) is being mentioned throughout the Quran. The second word is for the meaning of establishing, by the word مَعَةٌ. The thematic meaning of human resources management is the dealing with human being has to established accordingly. PMBOK (2008) meaning of project human resource management includes the processes to complete project is by organizing, managing, and leading the project team, which comprised of the people with assigned roles and responsibilities. Unlike, the Quran insists that these processes have to be established by the people.

hajarsalwa@gmail.com
### Table 4  Quranic verses for cost management

<table>
<thead>
<tr>
<th>Verses from the Quran</th>
<th>Translated verses of the Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2:41</td>
<td>[And do not exchange My signs for a small price]</td>
<td>a price</td>
</tr>
<tr>
<td>12:20</td>
<td>[And they sold him for a reduced price—a few dirhams—]</td>
<td>for a price</td>
</tr>
<tr>
<td>2:3</td>
<td>Who believe in the unseen, establish prayer, and spend out of what We have provided for them</td>
<td>they spend</td>
</tr>
<tr>
<td>2:267</td>
<td>You who have believed, spend from the good things which you have earned</td>
<td>Spend</td>
</tr>
<tr>
<td>2:272</td>
<td>And whatever you spend of good—it will be fully repaid to you</td>
<td>you spend</td>
</tr>
<tr>
<td>12:112</td>
<td>Nor do they spend an expenditure, small or large</td>
<td>any spending</td>
</tr>
<tr>
<td>17:100</td>
<td>Then you would withhold out of fear of spending</td>
<td>(of) spending</td>
</tr>
</tbody>
</table>
### Table 5  Quranic verses for quality management

<table>
<thead>
<tr>
<th>Verses from the Quran</th>
<th>Translated verses of the Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>ما كان الله ليذر المؤمنين على ما أنتم عليه حتى يميز الخبيث من الفلق 3:179</td>
<td>[Allah would not leave the believers in that state you are in presently] until He separates the evil from the good</td>
<td>He separates</td>
</tr>
<tr>
<td>وافتراوا اليوم أيها السارقون 36:59</td>
<td>[Then He will say], “But stand apart today, you criminals”</td>
<td>But stand apart</td>
</tr>
<tr>
<td>يختصّون بشرح من يشاء 3:74</td>
<td>He selects for His mercy whom He wills</td>
<td>He chooses</td>
</tr>
<tr>
<td>والّمَا فِيّنَ أَلّا تُصِيبَنَ الّذِينَ ظَلَّمُوا مِنّكُم مَّنْ كُنْتُمْ خاصّةٌ 8:25</td>
<td>And fear a trial which will not strike those who have wronged among you exclusively</td>
<td>exclusively</td>
</tr>
</tbody>
</table>

### Table 6  Quranic verses for communication management

<table>
<thead>
<tr>
<th>Verses from the Quran</th>
<th>Translated verses of the Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>مبَحَّة وَتَغَالِبُ عَنَّا يَصِفُونَ 6:100</td>
<td>Exalted is He and high above what they describe</td>
<td>they attribute</td>
</tr>
<tr>
<td>ﷺ Và الله المستعان على ما تصفون 12:18</td>
<td>“And Allah is the one sought for help against that which you describe”</td>
<td>you describe</td>
</tr>
</tbody>
</table>

According to Table 8, it suggests the keyword لوحصـ to present the concept of risk management in the Quran. Thematic meaning of risk management only brought its meaning as the only reach or join. Unlike in PMBOK (2008) project risk management includes the processes of conducting risk management, which has the purpose to increase the probability of positive impact of positive events and decrease the probability of negative impact on events in the project. However, the meaning of the risk management brought forth what has to be jointly conducted within the reach or ability as described in the verses in the Quran.

According to Table 9, it were listed 1 major keyword from، the keyword of stakeholder meaning from Quranic view. Allah is the most knowing who taught human with knowledge and the Quran, He is the most knowing that we
Table 7 Qur'anic verses for human resource management

<table>
<thead>
<tr>
<th>Verses from the Quran</th>
<th>Translated verses of the Quran</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resource management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>رَبِّ أَنَا بِكُنْوَةٍ لِّي وَلَدًا مَّمَّن تَحْكَمُ بِهِ ۚ ۗ ۚ سَمِيعٌ</td>
<td>“My Lord, how will I have a child when no man has touched me?”</td>
<td>any man</td>
</tr>
<tr>
<td>ﻷَ نَہُوُا نُبُوَّةُ ﻻِلَّةِ ﺍﻟْﺤُكْمَآءِ وَالْمُؤْمِنَآءِ ﻷَنَّهُ</td>
<td>It is not for a human [prophet] that Allah should give him the Scripture and authority and prophethood</td>
<td>for a human</td>
</tr>
<tr>
<td>وَقَالُوا إِنَّهُ ﻷَنَّهُ ﻷَ نَہُوُا نُبُوَّةُ ﻻِلَّةِ ﺍﻟْﺤُكْمَآءِ وَالْمُؤْمِنَآءِ ﻷَنَّهُ</td>
<td>And when they saw him, they greatly admired him and cut their hands and said, “Perfect is Allah! This is not a man; this is none but a noble angel”</td>
<td>a man</td>
</tr>
<tr>
<td>ﻷَ نَہُوُا نُبُوَّةُ ﻻِلَّةِ ﺍﻟْﺤُكْمَآءِ وَالْمُؤْمِنَآءِ ﻷَنَّهُ</td>
<td>And thus, We established Joseph in the land</td>
<td>We established</td>
</tr>
<tr>
<td>ﻷَ نَہُوُا نُبُوَّةُ ﻻِلَّةِ ﺍﻟْﺤُكْمَآءِ وَالْمُؤْمِنَآءِ ﻷَنَّهُ</td>
<td>[And they are] those who, if We give them authority in the land, establish prayer</td>
<td>We establish them</td>
</tr>
</tbody>
</table>

notice the occurrences of the word رَبِّ (your Lord) before أَلْعَمَّ (All-Knowing), the words نَہُوُا (All-Knowing), the pronoun ﻷَ (We) before أَلْعَمَّ (All-Knowing), and ﻷَ نَہُوُا (All-Knowing). The thematic meaning of stakeholders management is taught, are those who knows all or best. In the PMBOK (2008), project stakeholders are persons who have actively involved in the project and have interests on whether the project has positive or negative effect on the execution or completion of the project. However, the meaning of the Quran makes much closer look at project stakeholder as they are the one who knows all or the best provided it is seen or not hidden. It is amazing that although stakeholder knows all or the best on matters, at times, the Quran mentioned they will be taught on matters which are not known. The project management of stakeholders is bounded within this framework and limited access if and unless known or experience.

According to Table 10, two major keywords retold us about the concept of procurement management process in the Quran. The first keyword is built from the letters
<table>
<thead>
<tr>
<th>Table 8  Quranic verses for risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Verses from the Quran</strong></td>
</tr>
<tr>
<td><strong>Risk management</strong></td>
</tr>
<tr>
<td>فَمَا كَانَ لِشَرْكَاهُمْ فَلَا يَصِلُّ إِلَى اللَّهِ 6:136</td>
</tr>
<tr>
<td>وَمَا كَانَ بِاللَّهِ فَلَا يَصِلُّ إِلَى شَرْكَاهُمْ 6:136</td>
</tr>
<tr>
<td>فَلَمْ يَرَى أَنَّ يَدَيْهِمْ لَا يَصِلُّ إِلَى اللَّهِ 11:70</td>
</tr>
<tr>
<td>فَلَا يَصِلُّ إِلَى شَرْكَاهُمْ 11:81</td>
</tr>
<tr>
<td>وَأَلَّمَ يَصِلُّونَ مَا أَمَرَ اللَّهُ بِلَوْنَاتِينَ وَفِي قُطُّونِ رَمَيْنَ 13:21</td>
</tr>
<tr>
<td>وَيَقْطَعُونَ مَا أَمَرَ اللَّهُ بِلَوْنَاتِينَ وَفِي قُطُّونِ يَرِيُونَ بِكَفْلِهِمْ وَقَدْ نُصْلَى إِلَّا إِلَّا إِلَّهَمَا 13:25</td>
</tr>
<tr>
<td>And they will reach</td>
</tr>
<tr>
<td>وَلَمْ يَكُنْ لَكُمْ سُلُطَانًا فَلا يَصِلُّ إِلَّا إِلَّهَمَا 28:35</td>
</tr>
<tr>
<td>Stakeholder</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Taught man that which he knew not</td>
</tr>
<tr>
<td>[And] taught him eloquence</td>
</tr>
<tr>
<td>Taught to him by one intense in strength</td>
</tr>
<tr>
<td>Taught the Qur’an</td>
</tr>
<tr>
<td>Say, “O Allah, Owner of Sovereignty, You give sovereignty to whom You will and You take sovereignty away from whom You will”</td>
</tr>
<tr>
<td>Allah is most knowing of where He places His message</td>
</tr>
<tr>
<td>Indeed, your Lord is most knowing of who has strayed from His way</td>
</tr>
<tr>
<td>and He is most knowing of who is [rightly] guided</td>
</tr>
<tr>
<td>We are most knowing of how they listen to it when they listen to you</td>
</tr>
<tr>
<td>You know what is within myself, and I do not know what is within Yourself. Indeed, it is You who is Knower of the unseen</td>
</tr>
<tr>
<td>So wherever you [might] turn, there is the Face of Allah. Indeed, Allah is all-Encompassing and Knowing</td>
</tr>
</tbody>
</table>
The thematic meaning of procurement management revolves around those who owned or possess through the process of buying and selling. In PMBOK (2008) project procurement, management includes the processes to purchase or acquire product and service. In this respect, the organization can either be a buyer or seller. Project procurement management includes the management of contract management of this buying and selling. Within the context of the meaning of Quran project, procurement management involves the selling and buying processes will eventually display the exercise the right and power to possess.

**Conclusion**

The meaning of project management is in tandem with the meaning in the Quran under the letters (plan), built from the word (organize; plan). The general terms of project management describe in the Quran as on how the project should be planed, organized, and managed.

The concept of scope management the keywords under the letters (study), built from (means carry out, and underlines (ponder), the letters (teach; know) provide contrast meaning in with existing concept in PM. These verses describe that project scope management in the Quran is carried out through the study and teaching or guidance from the Quran. In a sense, scope management is not only about only processes that to ensure that the project includes all work required, and only the work require but also will be carry out, taught and have knowledge to complete project successfully.

From the Quran, cost management carries the keyword which is associated with either to bring about the meaning of small and reduced price and another the keyword and the appearances might be varied in forms: and . The meaning is consistent with PMBOK (2008), the spending for a price after completing estimation, budgeting, and controlling the cost of the project.

The meaning of quality management describe in the Quran from the concept “separate” by the word , standing apart by the word , and the meaning of exclusively by the word . These concepts have a deeper meaning than PMBOK (2008) which performing the quality processes to satisfy the needs and requirement for the project brought forth by PMBOK. The meaning of quality management is not only to satisfy customer needs and requirement but it clearly states that every customer is different or stands apart and needs to be treated separately exclusively.

In communication management, the meaning of “attribute” and “describe” from Quranic verses to describe distinctively the ways that interaction between all parties. Project communication management required to timely and management of project information by the project managers and project stakehold-
<table>
<thead>
<tr>
<th>Table 10 Quranic verses for procurement management process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Verses from the Quran</strong></td>
</tr>
<tr>
<td><strong>Procurement management process</strong></td>
</tr>
<tr>
<td>2:102 لَبَسْنَ مَا طَرَأْنَهُ بِأَنْفُسِهِمْ لَكُلُّ مَّيْئَّهٍ يَغْفِرُونَ</td>
</tr>
<tr>
<td>2:207 وَمَنْ يَسْتَغْفِرْ لَهُمْ نَفْسَهُمْ فَلْيَعْفَفْنَ</td>
</tr>
<tr>
<td>4:74 فَلْتَفَخَّرُوا بِسَبِيلِ اللَّهِ وَيَضُرُّونَ الْحَيَاةَ الدُّنْيَا بِالأَجْرَةِ</td>
</tr>
<tr>
<td>12:20 وَضَرْعُوري يَبْلِغُ ذَخْرَاهُ مَذْهِدَةُ</td>
</tr>
<tr>
<td>2:16 أُولَئِكَ الَّذِينَ اشْتَرَوْا الصَّالِحَةَ بِالمُغْسِلَةِ</td>
</tr>
<tr>
<td>4:3 فَإِنَّ هَكُمْ أَلْطَمَّلُوا فُوَاجِدَةً أَوْ مَا مَلَكَتْ يَدَاهُمْ</td>
</tr>
<tr>
<td>34:22 “They do not possess an atom’s weight [of ability] in the heavens or on the earth”</td>
</tr>
<tr>
<td>34:42 فَأَلَوْمُ لَا يَفْتَكُونَ بِتَّفَكُّرٍ لِيُغْفِرْنَهُمْ وَلَا يَخْشَوْنَ</td>
</tr>
</tbody>
</table>
ers. The Quran has enhanced the meaning of project communication management further from just timely and management of information but the processes have been attributed and described by the Quran.

The meaning of human resources suggested the word (human) and establish, by the word (establish). The Quran insists that these processes have to be established by the people. The project human resource management includes the processes to complete project by organizing, managing, and leading the project team, which comprised of the people with assigned roles and responsibilities.

The meaning of the risk management is within the reach or ability describe from the keyword (to present the concept of Risk Management in the Quran. In line with PMBOK (2008), project risk management has the purpose to increase or decrease the probability of positive and negative impact of events, respectively, within the ability and one reach of the project itself.

The Quran makes much closer look at project stakeholder, as they are the one who knows all and best on certain issues. However in matter not know or seen, Quran mentioned that it can be taught. All these meaning emerged the major keyword (human with knowledge, He is the most knowing who taught human with knowledge, He is the most knowing the words (your Lord) before the pronoun (We) before the word (All-Knower) and (All-Knowing).

The concept of procurement management process in the Quran built from the letters that mean sell and from that mean possess. The thematic meaning of procurement management revolves around those who owned or possess through the process of buying and selling. In PMBOK (2008) project procurement, management includes the processes to purchase or acquire product and service. In this respect, the organization can either be a buyer or seller. Project procurement management includes the management of contract management of this buying and selling.

The themes and patterns are emerged from the extraction of the Quran contribute knowledge to the theory for PM from the perspective and context of the Quran. The extended works in the area IPM can assist in the development of the framework of Islamic project management in the general context of the PM theories and industries practices.

Acknowledgements This research is wholly funded by the University of Malaya High Impact Research Grant (HIRG) (UM.C/625/1/HIR/150), Kuala Lumpur, Malaysia, of which the authors are indebted to.

References


Part VI

Application of Islamic Principles in Other Issues
The Identity of Islam in Project Development and the Public Realm

Resisting Global Mimicry and Returning to Contextualised Inventiveness

Puteri Shireen Jahn Kassim, Norwina Mohd Nawawi, Harlina Md Sharif and Sufian Hamat

Abstract Whenever the identity of Islam in the built environment is called for as part of identity-making in the development of new public buildings including governmental institutions, general urbanscapes of towns, interpretations of this requirement have demonstrated a range of cosmetically inclined cut-and-paste imageries with externally imported range of facade solutions, expressions, vocabulary and formal themes rather than localised interpretations and inventions. These imageries, which are often proposed and built, comprise of the mere mimicry of Arab-Islamic forms and traditions—reflecting an imposed hegemony linked to Middle Eastern past historiographies and origins of Islam. Due to the pressure of project development, to fulfil the implicit requirement, mimicry is often being resorted to inform and facade systems, including roof forms and urban design elements. Public built expression inevitably veers to a certain cultural image which is portrayed as the ‘true’ expression of Islam. The paper argues that the ethical and philosophical foundations of Islam calls for a complete reworking of such ‘Islamic’ meanings and a reworking on identities based on localised contextualised ‘inventive’ and ‘imaginative’ approach in public buildings. This includes highlighting elements derived from local, natural and cultural resources including histories and past ingenuities in compliance to Shariah. The ‘Islam’ in-built environment is a global expression of multicultural efflorescence rather than simply a ‘cosmetic’ imposition of mono-ethnic or romantic images from Arab Islamic past models. The paper highlights how built forms and spaces can have spiritual inferences yet be universal, without specific ethnicrefer-
Islam expansion was a global physical phenomena of syncretised solutions in past cities and buildings as far as China without imposing alien forms onto the local public realm nor the urbanscape. Through content analysis, and survey of the stakeholders in the industry and society with Malaysia as the case study, the research aims to highlight series of suggestive solutions representing the contextual and syncretic approach, ranging from overall forms, structures, decorative motifs and spaces in range of holistic juxtaposition as urban solutions unique to the Malaysian Muslim society as regional identity.

**Keyword**  Islamic imagery · Localisation · Geometry · Urbanscape · Public buildings

**Introduction**

Batuman (2016) observes that the current spate of building of large national mosques in Turkey in recent years using the exact templates of sixteenth-century Ottoman mosques was a form of ‘architecture mimicry’, which notably arise from a convergence of two factors; (1) the anxiety of the existing political status quo or structures to find a legitimisation and strengthening of their position as defenders of Islam; and in the eyes of the predominantly Muslim population; (2) the need to connect with the global network of Islam. Kassim, Nawawi and Ibrahim (2018) noted that these factors have contributed to the significant uptake of imported models and styles, and this became an acute condition in the era of postcolonialism of South East Asian nations, and with reference to Malaysia. The expression of public buildings via the mimicry of Arab–Islamic stylization, particularly in mosques and government offices was associated with the framework of a perennial anxiety of postcolonial nations to culturally, psychologically and symbolically disconnect with a colonial past. This rupture is to forever symbolise a ‘freedom’ from the shackles of imperialism, which was seen as their ‘past Colonial masters’—yet the vacuum was not filled with vernacular models or critical regionalist forms, derived from local designers, but from imported forms and imported expertise. Kassim et al. (2016) highlighted how along with the past developments in Orientalist scholarship and the recent rise of Islamic conservatism, such ‘Islamic’ forms and imageries had converged and caused a stereotypical view of what is ‘Islamic’ in the language or grammar of public buildings. The mosque is a particularly public typology which seem to endlessly regurgitate Arab–Islamic or Indo-Islamic models rather than reinventing tradition or exploring the richness of South East Asian Islamic heritage in creating new traditionally rooted language of architecture.

Nawawi, Kassim and Hamat (2016) then attempted to compile, and summate principles of Islamic architecture, which can outline an alternative and more universal approach to Islamic design, including architecture, rather than regurgitating the stereotype. This must arise from delving back into the universally linked values and ethos of Islam, which emerge from an austere approach and humble approach.
Nawawi et al. (2016) has highlighted how the austerity and ultimately spirituality of the Prophet’s mosque can be reconciled due to the presence of the Prophet’s as a personage himself, which ultimately overcame any austerity of the built form during the Prophet’s time. Following the current historiographies of popular ‘Islamic architecture’ ‘Islamic’ language has focused on the cultural imagery, rather than inventiveness and creativity. Sharif (2013) in her Ph.D. thesis on South East Asian mosques, found that while such mosques have been debated as linked to, and resonate to ‘Mount Meru’ forms of Javanese traditions as highlighted by historians, the forms of South East mosque, were in fact, evolved from functional and constructional outcomes linked to context, i.e. the Malay Nusantara region. Kassim, Nawawi and Majid (2017) had discussed how Islamic values and immersion feature in the works of Malay traditions in architecture, including Malay woodcarvings and ornamentations, which counter the rigid geometry of Islamic panels, yet resonate the notion of Islam in their ethics and essences. This is because the aesthetic form and intentions of the craftsman and builders were built upon the foundations of spiritually and taqwa inherent in the Malay traditional design process to architecture, arts and ornamentation. While such motifs had linkages to a pre-Islamic and perhaps, an Indianised past, its Islamic evolution of past forms to the present forms should no longer be related to this past. These decorative forms have undergone the Islamisation process, and hence are inherently Islamic.

**Literature Review**

*Stereotypical Interpretations of ‘Islamic’ Design as Imagery in Public Buildings*

The present stereotypical view of so-called ‘Islamic’ forms and design have constantly and sporadically emerged in government or public buildings whenever a project brief called for ‘Islamic’ requirements in order to fulfil the ‘Islamic’ essence. Due to the pressure of project development implicit in this requirement, mimicry is often being resorted to in facade systems, roof forms and urban design elements of public built expression which inevitably, is argued as portraying the ‘true’ expression of Islam. Such interpretations have narrowed the vast richness of Islamic traditions, which is global in its dimensions, and must not be narrowed to only a certain perspective. At times, those who have veered from the stereotypical have even called the ‘design’ or product as un-Islamic. To narrowly interpret ‘Islamic’ as merely the implementation of certain shapes and forms, such as domes and arches along with the implementation of Islamic geometric motifs such as 8 sided stars and 6 sided rosettes patterns as symbols without a contextualisation of such patterns and forms, can be argued as against the very spirit of Islam and the universality of the ummah (Fig. 1). The ethical and philosophical foundations of Islam calls for a contextualised universal approach that is continuously ‘inventive’ and ‘imaginative’. Particularly such an
Fig. 1 Stereotypical geometric treatments in public buildings

approach in public buildings, highlighting elements derived from local, natural and cultural including histories and past ingenuities in compliance to Shariah, must be focused on as these buildings and urban designs are inhabited and used by a majority of the population. The ‘Islam’ in-built environment must be of a local interpretation yet having a global expression of multiculturalism. It must reflect its own time rather than simply a ‘cosmetic’ imposition of mono-ethnic or romantic images and templates from Arab Islamic or Indo-Islamic past models.

Islam, Geometric Form and Contextualization

Geometry has been linked to the glory of Islam’s architecture. Islam’s past inventions and implementation of geometric patterns, particularly in public buildings and throughout its civilisations, have, however, arose from its preoccupation with discoveries of science and its derivations during its time. It was a preoccupation with the generation of new knowledge, which led to scientific discoveries and which had subsequently led to the growth and continuous review of the Islamic arts. The geomet-
rical patterns in Islamic society were not merely patterns and shaped but was linked to the intrinsic workings of nature and hence, a pathway of reflecting the greatness of the Creator, and to transcend the materiality of architecture and of this world, into a remembrance of the next world or the infinite world beyond the physical illusion and presence. The innate scientific basis is found in the matter and structures within the natural world and it is this continuous intrigue that was reflected in past Islamic architecture in which arabesque was fused with geometric forms. Recent developments in the molecular and atomic structure of crystals have found that such patterns of Islamic arts and ornamentation in selected parts of the world have reflected the truth of scientific discoveries.

For example, the perfect quasi-crystal\(^1\) patterns in Islamic architecture, which are mesmerising geometric patterns, are often located in places of worship, comprising of repetitive and unbroken patterns. Commonly used in the architecture of the Seljuk era and region, these patterns are also widespread in Muslim societies in a variety of media such as woodworks, ceramics and tapestries. Muslim craftsmen/artisans, whom were thought to create the patterns perhaps by using a set of tiles of distinct shapes, each decorated with lines that join to form the final patterns or through reverting to local rules such as subdividing or overlapping of tiles via tradition, however, proved otherwise. Recent studies have provided the ground for correlation between arts and science where fifteenth-century Muslim architects and artisans had used techniques were parallel and reflect what mathematicians presently termed as ‘quasicrystal line geometry’.

One of the discovery was published in the journal ‘Science’ in February 2007 by Paul J. Steinhardt and Peter J. Lu.; who reported on a similarity between the geometric patterns and contemporary quasi-crystalline geometry lies in the fact that both use symmetrical polygonal shapes to create patterns that can be extended indefinitely. Until now, the conventional view was that the complicated star-and-polygon patterns of Islamic design were conceived as zigzagging lines drafted using straightedge rulers. By using simple rules and template tiles, patterns with a symmetry can be generated which can only be formally and mathematically described for the next 500 years. As cited from and published in the journal ‘Science’:

The discovery suggests that the Islamic artisans who created these typical girih designs had an intuitive understanding of highly complex mathematical concepts. “We can’t say for sure what it means,” says Lu, a graduate student in physics at Harvard’s Graduate School of Arts and Sciences. “It could be proof of a major role of mathematics in medieval Islamic art or it could have been just a way for artisans to construct their art more easily. It would be

\(^1\)Quasicrystal refers to a structure that is ordered but not periodic. A quasi-crystalline pattern can continuously fill all available spaces, but it lacks translational symmetry. While crystals, according to the classical crystallographic restriction theorem, can possess only two, three, four and sixfold rotational symmetries, the Bragg diffraction pattern of quasicrystals shows sharp peaks with other symmetry orders, for instance, fivefold. A periodic tiling works were discovered by mathematicians in the early 1960s, and some 20 years later, they were found to apply to the study of quasicrystals. The discovery of these aperiodic forms in nature has produced a paradigm shift in the fields of crystallography. Quasicrystals had been investigated and observed earlier, but until the 1980s, they were disregarded in favour of the prevailing views about the atomic structure of matter.
incredible if it were all coincidence, though. At the very least, it shows us a culture that we often don’t credit enough was far more advanced than we ever thought before.

*Girih* designs represent arrays of tessellating polygons of multiple shapes, super-imposed with a zigzag network of lines. These ‘quasi-crystalline’ are either fivefold or tenfold rotational symmetry that can be rotated to either five or ten positions that look the same, yet their patterns can be infinitely extended without repetition.

The principles behind quasi-crystalline symmetry were historically calculated by the Oxford mathematician Roger Penrose in the 1970s, but it is now clear that Islamic artists were creating them more than 500 years earlier.

Inherently, Muslim artisans had used these elements and techniques with tools of straight edges and compasses, which was basically a basic toolkit of *girih* tiles, made up of shapes such as the decagon, pentagon, diamond and hexagon, for ages.

Straight edges and compasses work fine for the recurring symmetries of the simplest patterns we see, but it probably required far more powerful tools to fully explain the elaborate tiling with decagonal [10-sided] symmetry,

Lu (2007) in the journal The Independent on 25 February 2007, added that:

…. individually placing and drafting hundreds of decagons with a straight edge would have been exceedingly cumbersome. It’s more likely these artisans used particular tiles that we’ve found by decomposing the artwork.

Scientists also found that by 1453, Muslim architects had created overlapping patterns with *girih* tiles at two sites to produce near-perfect quasi-crystalline patterns that did not repeat themselves.

The fact that we can explain so many sets of tiling, from such a wide range of architectural structures throughout the Islamic world with the same set of tiles, makes this an incredibly interesting universal picture, Lu (2007)

**Method**

*Contextualization and Islamic Connotations*

Hence, what is ‘Islamic’ is not mere surface patterns or forms. Islamic is the expression of a principle that has undergone countless permutations and interpretations across time. Islamic must be seen as a reflection of the Divine and an efflorescence of connotations including its contextualised or geographic variations. Hence, ‘Islamic’ must not be narrowed to ‘merely the abstract’ and the ‘geometric’ form as a product. The universality of the ummah recalls the nature of ‘tawazun’ or ‘balance’ in Islam, it must necessitate a more wider exploration of patterns and forms to the context in location, function, climate, culture and time. In design, symmetry must be balanced with ‘asymmetry’ and be fused with ‘reciprocity’. To claim something is symmetrical in space and surface does not merely mirroring the geometric patterning. But
essentially, it means that one part is the same measure as the other part. Similarly, the human mind will tend to see hierarchy and proportion in every element of nature and this must be reflected in the forms and patterning in architecture. The reverence and glorification of nature must, in reality, be captured both in nature’s form and its spirit. It must embody repetition but yet manifesting the multiple variations. Thus, evoke and reflect the spirit of universal laws—*sunnatullah* (by Allah s.w.t) found in nature itself. Nature are creations of the Almighty and must be celebrated and reflected in the artistic works of man as a reminder of Him everywhere. The famous detailed patterning of the Lion Court, Alhambra, demonstrate a striking feature, where the ‘fragmentation’ of the decoration or patterning, determine the principle which seems to be ‘multiplications of variations of small and very small elements’. This is described further as ‘geometric, vegetal, and calligraphic motifs, merge into one another….’. In Islam, there is a link between symmetry and spirituality, i.e. a sense of spirituality which embodies focus on worship or submission. Ultimately it is a multi-reflection and characteristic of the Divine itself, a transcendence of God, which go beyond a specific interpretation of ‘Islamic’ form as a Divine product and should be appropriately applied.

Scientists have described the feeling of symmetric coherence in material science: to *reach an ‘oceanic’ state*, where a feeling where the self and the universe are perceived as harmoniously related. These findings resonances with some of Plato’s idea and thought precepts. As Mackay has summarised usefully:

Plato had put forward 3 important concepts: that the idea that everything was made of an infinite number of a few units of pattern, that the idea of groups (abstract patterns without motif) and the idea that structure of a material determined its properties.

Barrucad and Berdnoz (2002) aptly described the balance in Islamic arts in Abbasid Spain as:

the patterns…. seem to fuse into a homogenous and highly sophisticated artistic idiom, one that was not shy of creating effects, and whose vegetal elements had largely liberated themselves from their natural models and instead gradually gave up their identity in a union with geometric forms.

By the fourteenth century, what is considered as Islamic imagery of the period is fundamentally a balance between ‘orthogonal’ and ‘organic’, i.e. such as the geometric patterns that are reflected within and integrated with arabesques patterns. This micro-development became highly developed into a large spectrum of symmetrical compositions based on flora, vegetation and calligraphy as an integrated part of the whole composition. This phenomenon became established as an Islamic artisanal palette intrinsic to the language of Islamic art.

Within the local context, the coming of Islam to Malaysia has produced a kind of Islamic art which is distinctively local. A study conducted by Hazman (2013) revealed that from the 74 decorative woodcarving panels that were taken from Malay traditional houses and vernacular mosques, all the samples that were analysed conform to be in a combination of proportional dimensions of root rectangles or a double square or golden rectangle. The study adopted the work of Jay Hambidge (1867–1924)
whose careful examination and measurements of classical buildings such as the Parthenon, the Apollo and the Zeus at Olympia, prompted him to formulate the theory of ‘dynamic symmetry’ as demonstrated in his works *Dynamic Symmetry: The Greek Vase* (1920) [6] and *The Elements of Dynamic Symmetry* (1926). According to Hambidge:

…The classical Greeks first used dynamic symmetry especially in their architectures such as the Parthenon in Athens and many useful items such as vases and ornaments.

Hambidge’s developed understanding of dynamic symmetry proportional system that enabled him to extract a major method that serves as a parent mechanism; from which other methods of analysis were extracted in theory and practice of arts and architecture. The findings were translated into both arithmetic and geometric methods that can be converted into a series of accurate and empirical values.

Adopting Hambidge’s approach in the study of the Malay House lead to the uncovering of orderly principles of the Malay design and building tradition. It demonstrated that the Malay craftsmen have understood and applied the universal principles within their architecture. Although it is hard to ascertain if they were conscious of the design principles or how they were prescribed the knowledge, the survey proves that each woodcarving panels was pre-designed with precise arithmetic proportioning principles, and positioned in harmony to its context, resulting in breathtaking and intricately unique art and architecture (Figs. 2 and 3).

**Fig. 2** Within the $\sqrt{3}$ rectangle (ABCD), line AD or BC can be divided into three segments as shown above; by dividing WP55 into three segments along the vertical axis (X–X) give five generating points (1, 2, 3, 4 and 5). (Hazumi, 2013)
Fig. 3  Diagram above shows the geometric proportional composition of sample no. 65 that consists of 10 generating points (1, 2, 3, 4, 5, 6, 7, 8, 9 and 10) governing the detailing of the design motifs (Hazumi, 2013)

Results and Discussions

Spiritual versus ‘Stereotypical’

An example of the ‘spiritual’ and ‘emotive’ impact of contextualised patterns; rather than stereotypical forms, can be illustrated by highlight the psychological impact on visitors, whether they are from Muslim or non-Muslim backgrounds. The extent of the impact on one’s emotion and the association with a degree of spirituality can be demonstrated in a compilation of non-Muslim tourists’ responses, compiled and summarised in Table 1. Tourist comments are compiled and tabulated from the TripAdvisor’s online feedback globally. Visitor’ comments on the Hasan II mosque in Casablanca—which is a non-conventional mosque without dome—are compiled in Table 1, the right hand most column being the factor which the authors estimate to be related to the emotion. The range of displayed emotions that are linked to being spiritually affected are related strongly to the interior design and related to its complexity and richness in the contextualised patterns and delicate details in the localised version of Islamic architecture in a North African country. The richness and variety of treatments is linked to the character of Islam and its intrinsic spirituality. It is argued that the responses are outcome of the combination between the ‘richness and complexity’ of detailing patterns together with the form of the buildings itself which does not privilege the stereotype’ large dome form nor merely focus on the geometric surface patterning of interior spaces, but a holistic experience of His presence, inner and outer as part of the cosmos.

hajarsalwa@gmail.com
<table>
<thead>
<tr>
<th>No</th>
<th>Tourist/Resp</th>
<th>Date</th>
<th>Caption</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Jacqueline C &amp; Ralph D Liverpool, United Kingdom</td>
<td>11/17</td>
<td>You can even take a walk around the foreshore to get a real feeling of where the Mosque is perched. Very spiritual—really A site planning of a gigantic structure against the backdrop of an ocean under a blue sky. may evoke a sense of appreciation towards the higher be greatness of God</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Ralph D Liverpool, United Kingdom</td>
<td>11/17</td>
<td>This is a wonderful mosque and, regardless of your faith or none, the interior feels to be a spiritual space The architecture of the interior concerning the volume of the space, the lighting, the shades of colour, detailing and materiality of the place may be referred to the concept of Tawhid where all things are put together with one intention that is to evoke sense of humility and self-conviction on the notion of the oneness of God</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Zied s</td>
<td>21/6/17</td>
<td>Great experience especially during Ramadan nothing to say amazing! Excellent spiritual atmosphere a must visit Ditto</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Vik2rija Klaipeda, Klaipeds Apskritis, Lithuania</td>
<td>9/2/17</td>
<td>Stunning mosque. I would recommend visiting the grounds to both Muslims and non-Muslims. Beautiful peaceful spiritual place</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Mirek000 London, United Kingdom</td>
<td>20/11/16</td>
<td>Place to be seen from outside and inside This is the only mosque that can be easily visited by tourist during a guided tour. It is a big cultural monument, technical monument and spiritual place to be visited by everybody</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Tourist/Resp</td>
<td>Date</td>
<td>Caption</td>
<td>Remarks</td>
</tr>
<tr>
<td>----</td>
<td>---------------------------</td>
<td>---------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>6.</td>
<td>Salma E</td>
<td>9/10/16</td>
<td>Religious location</td>
<td>It one of the best destination you can visit in Casablanca, it has a fantastic architecture, I enjoy watching sunset really it was nice and very spiritual</td>
</tr>
<tr>
<td>7.</td>
<td>Firas J Amman</td>
<td>11/8/16</td>
<td>Certainly, a very spiritual place that you will enjoy to be part of, the Mosque is one of the biggest in the world and has vast open yards around it for prayers. I think it is one of the places you should see</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Xicham</td>
<td>11/6/16</td>
<td>Spiritual atmosphere</td>
<td>The setting (site planning) of the mosque by the sea, the detailing with all Islamic motif in both exterior and interior has created a spiritual peaceful atmosphere for all worshippers</td>
</tr>
<tr>
<td>9.</td>
<td>Leslie M F Sacramento, California</td>
<td>15/12/15</td>
<td>Another Mosque of Architectural Beauty</td>
<td>A display of a fine and fitting religious architecture based on the size and layout of worshipping spaces, all detailing and decoration of the interior which seems to have dematerialized and soften the hard ness nature of concrete and stone, measures that is consistently applied to all great mosque architecture in the Islamic world</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>No</th>
<th>Tourist/Resp</th>
<th>Date</th>
<th>Caption</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Kdtotara Auckland, New Zealand</td>
<td>23/4/15</td>
<td>Awe inspiring and deeply spiritual …I am not religious at all, but this felt a very spiritual place, it made me want to be a better person</td>
<td>A display of gigantic worshipping space that can hold tens of thousands of people at one time and the fine, articulate and meticulous treatment of the interior may evoke the feeling of humility toward the Greatness of Allah</td>
</tr>
<tr>
<td>11</td>
<td>Arif K Greater London, United Kingdom</td>
<td>4/7/15</td>
<td>This was my first visit to Casablanca. The mosque is certainly one of the most beautiful architectures I have seen. I can’t believe it was built as recently as 1993. Great spiritual experience</td>
<td>Ditto</td>
</tr>
<tr>
<td>12</td>
<td>Pip F</td>
<td>22/5/15</td>
<td>Spectacular …If you are spiritually inclined, this is an amazing place for that sort of thing, too, regardless of your specific leanings. A real haven of serenity in a busy modern city</td>
<td>A place of peace</td>
</tr>
<tr>
<td>13</td>
<td>Onlyadayaway Los Angeles, California</td>
<td>14/12/13</td>
<td>Wish we had more time. announced the afternoon prayer and listening to it while walking around the mosque really made our time at Hassan II feel very spiritual and surreal</td>
<td>A practical display of spiritual calling to all obedient worshippers. The echoes of loud voices in such a big structure maybe both deafening and filling (spiritually) at the same time</td>
</tr>
<tr>
<td>14</td>
<td>Tim K Shrewsbury, United Kingdom</td>
<td>12/9/13</td>
<td>Take your time here …this is a magnificent place. A geographical, historical and spiritual backdrop that is almost overwhelming. Awesome, in its truest sense</td>
<td>(continued)</td>
</tr>
<tr>
<td>No</td>
<td>Tourist/Resp</td>
<td>Date</td>
<td>Caption</td>
<td>Remarks</td>
</tr>
<tr>
<td>----</td>
<td>-------------</td>
<td>-------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>15</td>
<td>RoadwarriorS25 Mumbai (Bombay), India</td>
<td>20/1/13</td>
<td>The mosque is really charming and spiritual inside. Amazing architecture. A national effort</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Réda h</td>
<td>11/4/17</td>
<td>You don’t have to be muslim to feel a rush of spirituality and peace. This makes this spot the main reason to visit Casablanca</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Jug Hustler Boston, Massachusetts</td>
<td>30/3/17</td>
<td>A Most Spectacular Monument …Despite the many people that were visiting, it resonated with spirituality and peacefulness. As I mentioned, the location is right by the water, so it offers some really sublime views of the Casablanca coastline</td>
<td>The backdrops of the Mosque against beautiful picturesque natural setting provide signs of God’s greatness through such beautiful creation of nature</td>
</tr>
<tr>
<td>18</td>
<td>Fat sprat Warkworth, New Zealand</td>
<td>31/8/16</td>
<td>Quite so wowed by a building since I saw the Taj Mahal, not just for its grandeur but also the sense of spirituality that it demands</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Pixelpanderer Chicago</td>
<td>2/4/14</td>
<td>The site is amazing in terms of the size, the quality, the culture and the sense of spirituality. From the outside, it commands the seashore. From the inside, the quality and the quality of the workmanship in the mosaics, weaving and work carving</td>
<td>The architecture of the interior concerning the volume of the space, the lighting, the shades of colour, detailing and materiality of the place may be referred to the concept of Tawhid where all things are put together with one intention that is to evoke sense of humility and self-conviction on the notion of the oneness of God</td>
</tr>
</tbody>
</table>
Conclusion

The Agenda of Spirituality via the Human Soul

Islam links the sustenance and existence of the human soul from a Divine source. Human souls are earthbound but could climb towards a level higher than the angels; or in negate, could go lower than the animals (i.e. capable of extreme barbarism, crimes, etc.), as encapsulated in Sura At Teen. As the source of the soul; i.e. the AsSamad, Allah, the Primary Being, the origin or source of the human soul, the soul must be nourished both physically and spiritually as it is ever searching to return to its source or Samad. On earth, it longs for this return and continues searched for its origin, its fulfilment, and each will taste death and one day (upon death or Al Qiyamah) be forced to return to its Primary Origin. Its residence, on earth is a temporary state yet it yearns to return to the heavens—Jannah. Islam’s agenda is thus to be ‘innovative’ based on ‘reason’; and to be contextualise rather than a contrived attempt to copy or merely to be different. The cultural and specific condition of site and the function of the building that must dictate design. Yet patterns and repetitions must be seen for its spiritual role; a rich exploration into nature and its reflections in architecture and the arts. When faced with a particular project function or typology, the aim is not automatically to develop new architectural vocabulary merely for being ‘new but to observe conditions of site and design with a strong base of careful reasoning. If not, one would be succumbing to ‘a false originality, the true originality having been for all time, the spiritual essence given to the development of traditional forms by the individual artist. Movements and avant garde beginnings in design and stylistic trends always begins with those who are ‘brave’ enough to throw away the shackles of convention. Yet Islam values most, the richness and sequences of natural patterns and repetitions created to balance the ‘nuances’ of modern construction with the ‘richness’ from an unlimited variety of patterns which combines and permutates, yet these were imposed within fixed parameters of a consistent architectural regional vocabulary.

Spirituality in architecture and design goes beyond the imitations and arise from intentions of stirring one’s emotions towards Allah the Divine. Spirituality must arise from a courage to forge a new path and to pursue a consistent position in theory and design. Built form, artefacts and architecture spring from a ‘spirit’ and an outlook. The material manifestation of architecture is a reflection of its origins in terms of ideas and it is also argued that the long-term impact is linked to the depths of the faith of its creative artists (the architect, artisan, designer). On the one hand, what is ‘Islamic’ must be reviewed again to re-energise as a strategy that embody Spirituality and Unity. If Unity or Oneness has been associated with a value that free mankind from subservient to others except One Focus, that Unity can also be linked to a way of expression, which resists the forces of global styles or movement, whether they are Arab-Islamic styles or Modernist International styles. Perhaps the time has come for a basis of Islamic architecture that is re-rooted in place and patterns of cultures rather than ideas related to an imposed set of forms and images.
The same underlying concept is repeated in their work from the largest scale to the smallest detail of the design. El-Wakil and before the at his mentor, Hasan Fathy, represented a position which refuses to follow the norm of their era. They springboard new forms and innovation that came from a belief in the significance of departing from the norm. A certain measure of honesty and idealism must have cemented a propensity for creating the ‘new’ out of the old. Throughout the world, regionalism is a broad movement which represents how each architect or planner must deal with the issue of place identity, place form and its sources. Rather than looking externally, the source of form is proclaimed as being found into the locale. Formative principles must be found locally, yet these reflect the richness of cultures. Unity can lead to a ‘diversity’ through an action, creating a window to free the thought processes of a designer from any earlier precedents and preconceived ideas. For example, the principle of ‘unity’ can also be linked to and discerned into how light is brought in as well as how the solidness of the mass dissolves away in light.

There also must be a sequential structure to the design, observation and empathy of nature, a formative phase, a moment of inspiration, a relook at functions and its spatial expression, as well as an extension of the spirit of the ‘earth or nature’. These are similar propensities lying within the unpredictability of invention. It cannot be denied that the beliefs cemented within an art spring boardist’s or architect’s early years does provide that spark that defines an individual and unique artistic personality. Artists and architects are different in their style and outcomes, yet they demonstrate shared elements of style and recurrent design focuses and processes. A revolutionising approach will always produce a work of art and/or architecture that transcends the norms of their era.

Islam and Inventiveness

A renewed framework must involve the Islamic principle and understanding that detailed and contextual ornamentation plays as central role in architecture. It is the detail that is central in giving an expression to the soul of a work of architecture in order to reflect an integrated way of life which finds expression in architectural styles of history. As an integrated way of life, what is Islamic must hold the promise of a more humane mode of existence. Harries (2000) highlights similar ethical foundations by citing Wolflin’s ‘Principles of Art History’ highlights how, in such an architecture an approach to architecture, which strives to create wholes that are more integrated, organic and difficult to grasp. These have…’parts submitted to a dominating total motive. Cooperation with the whole gives them sense and beauty…” At the core of the ethos, it is an affirmation of the spirit of a creative work, at a minimum must reflect a realisation that works must arise from an awareness of a Higher force, and a contemplation of the universe. At most, it must be an acknowledgement of the Divine. Prophets and messengers are personages.
References


Morrison, M. *Pattern as Cosmology in Islamic Geometric Art*.


The Applicability of the Theory of Reasoned Action in Predicting the Intention to Save for Retirement

Haneffa Muchlis Gazali, Syed Musa Syed Jaafar Alhabshi and Adewale Abideen Adeyemi

Abstract  The unprecedented increase in life expectancy, as well as demographic changes over the last couple of decades, will intensify the need for adequate post-retirement saving. This paper aims to examine the factors that influence the intention to save for retirement. The theory of reasoned action (TRA) has been extended by including two additional variables—personal financial planning and religiosity to predict the intention to save for retirement. This cross-sectional study has collected and analysed data obtained from a self-administered questionnaire survey of 824 employees in Malaysia, while the SPSS package was used to analyse the data. The results suggest that TRA strongly predicts the intention to save for retirement. The study also found that personal financial planning is a significant predictor of retirement saving intention, while religiosity does not influence the intention for retirement planning saving and planning among employees in Malaysia. This study will contribute to the current literature by providing insights on retirement saving behaviour among Malaysian employees.

Keyword: Retirement savings · TRA · Malaysia · Personal financial planning · Religiosity

Introduction

The increasing life expectancy has driven people to prepare for their retirement. In 2017, the Department of Statistics Malaysia (Department of Statistics Malaysia, Labuan Faculty of International Finance, Universiti Malaysia Sabah Labuan International Campus, Labuan FT 87000, Malaysia e-mail: haneffia@ums.edu.my)

S. M. Syed Jaafar Alhabshi · A. A. Adeyemi
IIUM Institute of Islamic Banking and Finance, IIUM, Kuala Lumpur, Malaysia e-mail: syedmusa@iium.edu.my

A. A. Adeyemi
e-mail: abidewale@iium.edu.my

© Springer Nature Singapore Pte Ltd. 2019

hajarsalwa@gmail.com
reported that the average life expectancy for Malaysians at birth is 74.8 years. This has increased from 74.1 years in 2010. This is alarming as there are more Malaysians reaching retirement age as life expectancy becomes higher. This means that if the retirement age is not extended, more Malaysians will spend a longer time in their post-retirement years. In response, on 1 July 2013, the government revised the Minimum Retirement Age Act 2012. This will enable people to work longer and gives them more time to save adequately for their retirement (Zabri, Ahmad, & Lian, 2016).

A survey conducted by Borneo Post revealed that 49% of Malaysian millennials have put a low priority on retirement savings and they never think about it (“Survey: Poor financial health among Malaysian millennials,” 2017). In this regard, according to theory, an individual will have a positive attitude and more inclined to perform a behaviour if it leads to mostly positive and favourable outcomes. On the other hand, if that person believes that performing the behaviour will lead to negative outcomes, he/she will have an unfavourable attitude towards the behaviour. In this light, the beliefs that lie behind a person’s attitude towards the behaviour is known as behavioural beliefs (Lada, Tanakinjal, & Amin, 2009).

The second predictor is the subjective norm. This component is a function of beliefs that refers to a person’s perception on social pressure which dictates whether he/she should or should not perform the behaviour or action. This belief is imposed by someone who is important for the individual and motivated his/her to think that he/she should perform the behaviour. There are a number of published studies which described the roles of TRA in predicting behaviour. A study by Abduh, Duasa and Omar (2011) stated that TRA predicts the depositors’ withdrawal behaviour in Islamic Banks. Furthermore, TRA is a valid model to predict the intention to choose halal products (Lada et al., 2009), as well as the selection of Islamic credit cards in Pakistan (Ali, Raza, & Puah, 2017).

There is a growing number of studies that investigated the influence of attitude towards one’s behaviour based on behavioural intention Abdul Razak and Abduh (2012), Butt and Aftab (2013), Vaddadi and Pratima (2015), Rajna, Ezat, Junid and Moshiri (2011), Huda, Rini, Mardonii and Putra (2012) as well as the influence of subjective norms towards behavioural intention Huda et al. (2012). This study extends the basic TRA model by incorporating personal financial planning and religiosity to predict people’s intention to save for retirement.

In the context of retirement savings, attitude and subjective norm are powerful indicators of behavioural intention towards it. Croy, Gerrans and Speelman (2010) indicated that attitude and subjective norm contribute largely to the variances in behavioural intention. Most importantly, their findings highlighted that individuals determine their retirement savings decisions based on their behavioural intention. They also accentuated that it is worthy to focus on attitude and subjective norm as these indicators offer prospective intervention efforts (Croy et al., 2010). In a similar vein, Ismail et al. (2015) testified that subjective norm is a strong indicator of the savings behaviour among Muslims in Malaysia. Hence, it is expected that:

**H1: There is a significant positive relationship between attitude on the intention to save for retirement**
**H2: There is a significant positive relationship between subjective norm on the intention to save for retirement**

**Personal Financial Planning**

Nowadays, personal financial planning has not only become a necessity, but also a good practice (Boon, Yee, & Ting, 2011). Personal financing planning is a process of wealth accumulation over an effective utilisation of savings. In this regard, personal financial planning process incorporates all items of financial interest to individual such as tax planning, cash flow, investment, risk management, retirement planning and estate planning (Lewis, 2004). Personal financial planning is important to help individuals to work on their financial goals and this process could span a lifetime (Mohidin et al., 2013) and in the long run, better financial planning will lead to financial well-being, security and personal gratification.

Many recent studies (e.g. Mansor, Hong, Abu and Shaari 2015; Topa, Moriano and Moreno 2012; Heraty and McCarthy 2015) have shown the importance of personal financial planning. For instance, Heraty and McCarthy (2015), in their study discovered that psychological variables predict financial planning behaviour while another recent study Topa and Herrador-Alcaide (2016) focused financial planning for retirement (FPR) and acknowledged that FPR is a complex, worrisome task. Here, one negative or positive beliefs would influence trust and self-attention and consequently, play a vital role in one’s ability to plan for his/her retirement. In the meantime, Donaldson, Earl and Muratore (2010) extended the integrated model of retirement adjustment by incorporating mastery and retirement planning. The results of the Donaldson study disclosed that a sense of mastery have indirect effect between post-retirement planning and adjustment. In other words, their study highlighted the importance of psychosocial variables such as mastery and planning. These two variables were found to influence the retirement adjustment among members of National Seniors Australia (NSA). Moreover, Koposko and Hershey (2014) discovered that early financial influences have a significant effect on individuals’ financial and retirement planning and Mohidin et al. (2013) concluded that there is a significant positive relationship between retirement planning and retirement planning behaviour. Hence, retirement planning has a positive effect on actual retirement satisfaction. Consequently, this study anticipates that:

**H3: There is a significant positive relationship between personal financial planning on the intention to save for retirement**

**Religiosity**

The impact of religion on consumer behaviour has been investigated by many social science researchers (Abdullah & Majid Abd, 2003; Jamaludin & Gerrans, 2015;
Religion is a cultural context that creates a unified system of beliefs and practices (Mokhlis, 2009). This cultural value forms a social identity in particular societies. Previous research indicated that religion has influenced consumer behaviour and personality structure, such as a person’s beliefs, values and behavioural tendencies (Mokhlis, 2009). There are two dimensions that are associated to religion affiliation and religiosity (Jamaludin, 2013). Religiosity refers to the degree to which a person adheres to his or her religious values, beliefs, and practices and uses these aspects in daily living (Worthington et al., 2003, p. 85). Previous research on religiosity and consumer behaviour has shown a mixed result. This provides an opportunity for this study to investigate the effect of religions on individual economic behaviour, especially from the context of a developing country. In fact, one’s religiosity could be implied by the religiosity index, where people would have a higher tendency to save if they are more religious. Rehman and Shabbir (2010) work on religiosity and new product adoption revealed that there is a relationship between religiosity and new product adoption among Muslim consumers where religiosity influences Muslim consumers’ attitude towards the adoption of new products. Furthermore, they suggested that new products need to be promoted and prepared in accordance with spiritual and religious dictation and adopting a similar position. Khraim (2010) maintained that religion plays a significant role in shaping social and consumer behaviour; it was further posited that Islamic religiosity dimension is a combination of seeking religious education, Islamic current issue and sensitive products. In this regard, measuring Islamic consumer religiosity is a complex task. However, Khraim (2010) had successfully established a valid and reliable measures of religiosity consumer index.

In addition, studies posited that Islamic religiosity dimension encompasses the cognitive and behavioural dimensions of religiosity. This view is supported by Wan Ahmad, Rahman, Ali and Che Seman (2008) who posited that if a person who more religious and more highly educated will be more likely to choose Islamic Banking products. In addition, according to Amin and Abdul Razak (2014), Islamicity of a product and religion play an important role in determining consumer acceptance on Islamic home financing. Hence this study expects that:

**H4: There is a significant positive relationship between religiosity on the intention to save for retirement**

The evidence reviewed here demonstrates the objectives, methods and findings of the tested variables. Thus, this study aims to explain the suggested variables from the context of retirement savings as the studies on this aspect have remained inconclusive.
Method

Research Framework

Figure 1 illustrates the modified TRA developed for this study to understand the intention of retirement savings. The original variables of TRA, attitude and subjective norm were maintained. This model has been extended with other variables—personal financial planning and religiosity.

Participants

The purposive sampling technique was used to collect the data in Klang Valley. Several criteria were considered in determining the respondents. First, the respondents are working in the public or private sector and are not self-employed. Second, they must be aged at least 25. Next, the respondents must opt for Pension or Employees Provident Fund. Setting the criteria for the respondents of this study allows the researcher to attain a representative sample that can provide more accurate results. The survey questionnaires were distributed during working hours. Informed consents were obtained from the respondents orally and permission letters were given to the respondents before the data were collected. The sample size was determined based on the rule of thumb in Comrey and Lee (1992). According to Comrey and Lee (1992), the sample size of 50 is very poor, 100 is poor, 200 is fair, 300 is good, 500 is very good and the sample size of 1,000 is excellent are excellent. Thus, a total of 1,000 sets of questionnaires have been distributed. A total of 850 were returned and after the screening process, 824 questionnaires were found to be valid for further analysis. Thus, the sample size for this study is 824 and the response rate is approximately 82%.

The raw data were tabulated in the software data file and SPSS version 23 was used to facilitate the data analysis. The data cleaning process was conducted prior to analysis. The data were screened in order to ensure all the data entered are correct.
screening process includes checking for duplication, correcting errors, discrepancies and out of range scores in the data file (Pallant, 2010). Another requirement is to check the quality of the data before further analysis. In this light, the Cronbach’s Alpha measure is the most accepted method for checking for internal consistency and the reliability of the data.

### Reliability Test

Table 1 below describes the results of the reliability analysis of the study. The Cronbach’s alpha for each construct was Retirement Savings Intention (0.93), Attitude (0.96), Subjective Norm (0.89), Personal Financial Planning (0.87) and Religiosity (0.91). Hair, Celsi, Money, Samouel and Page (2011) suggested the minimum alpha value of 0.60 and as the Cronbach’s alpha dimensions for this study ranged between 0.87 and 0.96, all of the construct measures are considered as reliable.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Number of items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Savings Intention</td>
<td>6</td>
<td>0.93</td>
</tr>
<tr>
<td>Attitude</td>
<td>7</td>
<td>0.96</td>
</tr>
<tr>
<td>Subjective Norm</td>
<td>7</td>
<td>0.89</td>
</tr>
<tr>
<td>Personal Financial Planning</td>
<td>9</td>
<td>0.87</td>
</tr>
<tr>
<td>Religiosity</td>
<td>7</td>
<td>0.91</td>
</tr>
</tbody>
</table>

### Results and Discussions

#### Profile of Respondents

Table 2 below demonstrates the profile of the respondents for the study. For this study, 40.5% of the respondents are male and 59.5% are female. The sample was divided based on education level: 20% of the respondents stated SPM as their highest education while 27.8% stated STPM/STAM/Diploma, 43.7% hold a first degree, 8.8% have Master’s degree while 0.2% are Ph.D. holders. The majority of the respondents earn between RM1000 and RM3000 per month (42.1%), 32.4% of the respondents earn between Rm3001 and RM5000 per month while 15% and 8% of the respondents earn between Rm5001 and RM7000 and more than RM7001, respectively. The majority of the respondents (76.0%) are aged between 25 and 40, 22% are aged between 41 and 55. At the time of the survey. Furthermore, 70.3% of the respondents are married
Table 2  Profile of respondents

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Categories</th>
<th>Frequency (n = 824)</th>
<th>Per cent age (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>334</td>
<td>40.5</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>490</td>
<td>59.5</td>
</tr>
<tr>
<td>Education level</td>
<td>SPM</td>
<td>165</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>STPM/STAM/Diploma</td>
<td>229</td>
<td>27.8</td>
</tr>
<tr>
<td></td>
<td>Bachelor</td>
<td>360</td>
<td>43.7</td>
</tr>
<tr>
<td></td>
<td>Master</td>
<td>68</td>
<td>8.8</td>
</tr>
<tr>
<td></td>
<td>Ph.D.</td>
<td>2</td>
<td>0.2</td>
</tr>
<tr>
<td>Income</td>
<td>Less than RM1,000</td>
<td>17</td>
<td>2.1</td>
</tr>
<tr>
<td></td>
<td>RM 1001–RM 3000</td>
<td>347</td>
<td>42.1</td>
</tr>
<tr>
<td></td>
<td>RM 3001–RM 5000</td>
<td>267</td>
<td>32.4</td>
</tr>
<tr>
<td></td>
<td>RM 5001–RM 7000</td>
<td>124</td>
<td>15.0</td>
</tr>
<tr>
<td></td>
<td>More than RM 7001</td>
<td>69</td>
<td>8.4</td>
</tr>
<tr>
<td>Age</td>
<td>25–40</td>
<td>628</td>
<td>76.0</td>
</tr>
<tr>
<td></td>
<td>41–55</td>
<td>181</td>
<td>22.0</td>
</tr>
<tr>
<td></td>
<td>56 and Master</td>
<td>17</td>
<td>2.1</td>
</tr>
<tr>
<td>Marital Status</td>
<td>Single</td>
<td>237</td>
<td>28.8</td>
</tr>
<tr>
<td></td>
<td>Married</td>
<td>579</td>
<td>70.3</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>8</td>
<td>1.0</td>
</tr>
<tr>
<td>Employment Sector</td>
<td>Public sector</td>
<td>443</td>
<td>53.8</td>
</tr>
<tr>
<td></td>
<td>Private Sector</td>
<td>381</td>
<td>46.2</td>
</tr>
</tbody>
</table>

while 28.8% are single. In regard to their employment, 53.8% of the respondents are working in the public sector while 46.2% in the private sector. The other information obtained on the respondents’ profiles are displayed in Table 2.

**Factor Analysis**

A principal component analysis with varimax rotation was carried out to explore the underlying factors associated with 30 items. The Kaiser–Mayer–Olkin (KMO) Measure and the Bartlett’s test measure were also run to identify the sampling adequacy and to test the strength of association between the studied variables. The KMO value was 0.905, which is higher than the recommended minimum value of 0.60 (Kaiser, 1974). The results for both KMO and Bartlett’s Test of Sphericity are highly significant which support the factorability of the correlation matrix.

The communalities for each variable were performed to determine the amount of variance accounted and the values greater than 0.50 indicate a substantial portion form the variance accounted by the factors. After performing the exploratory factor
### Table 3  Factor analysis

<table>
<thead>
<tr>
<th>Components</th>
<th>ATT</th>
<th>REL</th>
<th>SN</th>
<th>PFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT2</td>
<td>0.907</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT3</td>
<td>0.906</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT4</td>
<td>0.903</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT5</td>
<td>0.884</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT6</td>
<td>0.857</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT7</td>
<td>0.834</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL1</td>
<td></td>
<td>0.864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL2</td>
<td></td>
<td>0.842</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL3</td>
<td></td>
<td>0.815</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL4</td>
<td></td>
<td>0.806</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL5</td>
<td></td>
<td>0.778</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL6</td>
<td></td>
<td>0.734</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REL7</td>
<td></td>
<td>0.699</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SN4</td>
<td></td>
<td></td>
<td>0.863</td>
<td></td>
</tr>
<tr>
<td>SN3</td>
<td></td>
<td></td>
<td>0.851</td>
<td></td>
</tr>
<tr>
<td>SN2</td>
<td></td>
<td></td>
<td>0.817</td>
<td></td>
</tr>
<tr>
<td>SN5</td>
<td></td>
<td></td>
<td>0.757</td>
<td></td>
</tr>
<tr>
<td>SN7</td>
<td></td>
<td></td>
<td>0.619</td>
<td></td>
</tr>
<tr>
<td>SN6</td>
<td></td>
<td></td>
<td>0.605</td>
<td></td>
</tr>
<tr>
<td>PFP5</td>
<td></td>
<td></td>
<td></td>
<td>0.809</td>
</tr>
<tr>
<td>PFP3</td>
<td></td>
<td></td>
<td></td>
<td>0.803</td>
</tr>
<tr>
<td>PFP4</td>
<td></td>
<td></td>
<td></td>
<td>0.793</td>
</tr>
<tr>
<td>PFP6</td>
<td></td>
<td></td>
<td></td>
<td>0.747</td>
</tr>
<tr>
<td>PFP2</td>
<td></td>
<td></td>
<td></td>
<td>0.684</td>
</tr>
</tbody>
</table>

Notes: Only loadings >0.5 are shown, extraction method: principal component analysis; rotation method: varimax with Kaiser normalization; a rotation converged in six iterations.

analysis, the items were reduced to 25 items. The items removed were those with the commonalities value lower than the threshold value of 0.50. The eigenvalue for this factor is 2.185 which explains 70.29% of the variance, with the factor loadings between 0.605 and 0.907. The results of factor analysis confirm that each of the latent variables perceived factorial distinct and the latent variables have been loaded correctly. The factors identified were ATT, REL, SN and PFP. Table 3 presents the final results of the factor analysis.
Table 4  Table summary

<table>
<thead>
<tr>
<th></th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.736</td>
<td>0.541</td>
<td>0.539</td>
<td>241.430</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table 5  The results of coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>t-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATT</td>
<td>0.626</td>
<td>0.029</td>
<td>0.611</td>
<td>21.364</td>
<td>0.000</td>
</tr>
<tr>
<td>SN</td>
<td>0.172</td>
<td>0.024</td>
<td>0.187</td>
<td>7.044</td>
<td>0.000</td>
</tr>
<tr>
<td>PFP</td>
<td>0.072</td>
<td>0.027</td>
<td>0.069</td>
<td>2.713</td>
<td>0.007</td>
</tr>
<tr>
<td>REL</td>
<td>0.005</td>
<td>0.034</td>
<td>0.004</td>
<td>0.159</td>
<td>0.874</td>
</tr>
</tbody>
</table>

Multiple Regression Analysis

The results of regression analysis are shown in Tables 4 and 5. Table 4 demonstrates the result of the model summary where the adjusted R square value is 0.539. This denotes that the model accounts for 53.9% of the variance in the dependent variable. The F-test value is 241.430 (p < 0.000) which signifies that the model is highly significant. Furthermore, the examinations of the maximum variance inflation factor (VIF) for all parameters showed the results of less than 10, indicating that there is no multicollinearity issue (O’Brien, 2007), for the variables ATT (t = 21.63, p < 0.01), SN (t = 7.044, p < 0.01) and PFP (t = 2.713, p < 0.01). The regression results also showed that ATT, is the most influential factors that explain the intention to save for retirement. Besides, SN and PFP also found to be significant to explaining the intention to save for retirement. Thus, H1, H2 and H3 are fully supported. In line to with present results, previous studies have also demonstrated that TRA is a good predictive model on consumers’ intention to adopt certain behaviour (Abduh et al., 2011; Lada et al., 2009). These findings are consistent with the findings of previous studies Koposko and Hershey (2014), Zabri et al. (2016) and Boon et al. (2011).

Nevertheless, the results also suggest that religiosity (H4) does not significantly influence an individual’s intention to save for retirement. In this light, the findings of this study is consistent with Jamaludin (2013) who discovered that religiosity does not influence individual investment choice decision in Malaysia.

Conclusion

The aim of the present paper is to examine the factors that influence the intention to save for retirement. This study has identified that attitude is the most important predictor of intention to save for retirement. The empirical evidence from this study suggests that consumers have a positive attitude towards the intention to save for retirement. Besides that, the result discovered that subjective norm and personal financial planning influence people’s intention to save for retirement. The results of
this study confirm that TRA is a valid model that can be used to predict the intention to save for retirement. Furthermore, the findings reveal that consumers have a positive attitude towards retirement savings and social pressure plays an important role in influencing one’s behaviour on adopting retirement savings. On the other hand, good personal financial planning plays a vital role in influencing consumer intention to save for their retirement. Consistent with previous findings on religiosity and retirement savings, this study confirms that intention to save for retirement is not influenced by religiosity.

These findings are relevant to both practitioners and policymakers. The study contributes to existing knowledge on retirement savings by providing empirical evidence on the factors influencing one’s intention to save for retirement. In this regard, financial planners should concentrate on promoting retirement savings products in order to attract and encourage more people to save for retirement. They also need to ensure that the consumer aware with the products that is available in the market, so the customers can choose retirement savings products that suit their needs. Moreover, financial planners need to help consumer achieve their financial goal and financial satisfaction post-retirement while financial educators should be more proactive in educating consumers by promoting the benefits of retirement savings.

A key strength of the present study is its huge sample size that qualifies the findings to be generalised into the urban context. Despite the strength of the findings, this study encourages future research in the same area to study different samples such as rural population, public and private sector employees in Malaysia. More research is needed to develop a deeper understanding of the relationship between retirement savings and Theory of Planned Behaviour.

References


Abstract  Zakat is one of the pillars in Islam where it is a mandatory 2.5% take on the wealth of well-to-do Muslims as already mentioned in Quran and Sunnah. Meanwhile, taxation is considered as a contribution levied on the persons, property or business for the support of the government. In Malaysia, the law governing income taxation is the Income Tax Act 1967. Both zakat and taxation play an important role especially towards the development of socioeconomic in Malaysia. However, the relationship of these two elements are hardly found in the literature. Therefore, this conceptual paper aims to explore the differences in terms of the implementation of zakat and income taxation, particularly in Malaysia. The significance of the study is to provide additional literature and knowledge to the public, so that the issues related to zakat and income taxation can be further discussed in order to give positive impact to the society and nation.

Keywords  Zakat · Taxation · Implementation · Impact · Malaysia

Introduction

Zakat and taxation are two distinct concepts that need to be comprehensively understood and appreciated by the people, especially the Muslim public. Both play an important role in an Islamic fiscal system (Nur Barizah & Abdul Rahim, 2007) and for the socioeconomic development of the country. According to Silvia and Choudhury (2006), zakat is considered as an incentive spending derived from spiritual consciousness for meeting obligation as an Islamic duty. The objectives of zakat normally refers to growth, increase and purification. The meaning of growth indicates that zakat will ensure psychological growth in the soul of the poor, as well as material growth in the contributors’ wealth. Meanwhile, the meaning of increase indicates that zakat will increase the contributors’ religious merits and blessings.
addition, the purification refers to purifying the wealth of the contributors as some portions of it belongs to others.

This is different from the purpose of taxes where it is the revenues of the ruling government and the distribution of it is depending on the plan of that particular country. Taxes are paid merely as complying to the rules and regulations of a country with no effect of purification of the wealth. According to Nur Barizah and Abdul Rahim (2007), there are three objectives for the imposition of taxes which are: (i) to check the consumption of commodities regarded as harmful, at least if consumed to excess, (ii) to redistribute labour, for example to encourage labour to move from employments in one industry to other types of industry and (iii) to reduce inequality of incomes. Hence, from the objective itself, zakat and taxation have different concepts that should be further discussed in order to avoid misunderstanding among the public.

The issues of zakat and taxation have been widely discussed in many aspects especially in developing countries. For example, Wang, Liu, Niu, Liu, and Yao (2018) had studied on the impact of taxation on economy, environmental and public health quality in China. Flores-Macias (2018) had discussed on how certain design features of taxes could affect political support for tax reforms in Mexico while Cetin (2017) had studied on the effect of taxation and regulation on cigarette smoking in Turkey. In terms of zakat, Izlawanie (2016) had studied on zakat compliance among small–medium entrepreneurs in Malaysia while Ahmad, Othman, and Salleh (2015) had assessed the satisfaction level of zakat recipient towards zakat management in Malaysia. In addition, Alima (2015) had reviewed in his study about zakat utilization and accounting in Indonesia.

Past researches also had come across the comparison between zakat and taxation in Malaysia such as comparison between business zakat and tax on business (Rohila & Mohd Zulkifli, 2011); business zakat accounting and taxation (Zahri, 2009) and comparative study of zakat and modern taxation in terms of legal, economic, social, ethical and spiritual aspects (Nur Barizah & Abdul Rahim, 2007). However, there are still lacking in literatures about the discussion on current issues and problems that need to be highlighted when zakat and taxation had been implemented simultaneously in a country especially in Malaysia. Therefore, this study aims to fulfil this gap by bringing two main objectives that are (i) to review the current implementation of zakat and taxation in Malaysia; and (ii) to discuss the current issues and problems related to this implementation.

Literature Review

A. An overview of zakat implementation in Malaysia

Zakat is one of the five pillars of Islam which ranks the third. Rasulullah (S. A. W) as narrated by Ibn Umar; Islam is based on five pillars: to testify that there is no God except Allah S. W. T and Muhammad is His messenger; to perform prayers, to pay zakat, to perform hajj and to fast during Ramadhan. Zakat has been divided into
two main categories which are zakat on wealth (zakat mal) and zakat on self (zakat fitr). Zakat on self which is also known as a zakat of the body is paid in the month of Ramadhan before the Muslim festive season celebration known as Eid Mubarak (1 Syawal). On the other hand, zakat on wealth is payable by a payer at any time of the year after holding the wealth for 12 months (haul). The zakatable wealth should exceed the exemption limit (nisab) and at only the rate of 2.5%. Examples of zakat on wealth include zakat of business, zakat of saving, zakat of income, zakat of gold and silver, zakat of poultry, zakat of fruits and grain, zakat of investment as well as zakat of Employee Provident Fund (EPF) saving (Muhrman, Nurul Ibtisam, Yusoff, & Abdurrahman, 2011).

By definition, zakat on wealth is an obligatory payment imposed on qualified Muslims who have excess after their basic needs are fulfilled. The payment of zakat is mainly to aid the economic development of the underprivileged group of people known as asnaf (Ahmad, Othman, & Salleh, 2015). Muhammad Akhyar and Nur Barizah (2009) in their paper also stated that zakat is a crucial alternative in resolving poverty. Looking from the perspective of Malaysia, for instance, the collection of Pusat Pungutan Zakat, the summary of its annual report shows that the institution has collected over 400 million in 2012 and this figure has been constantly increasing over 5 years where in 2016, the collections has arisen to RM580 million. These increasing lucrative figures should be able to meet the purpose as aforementioned.

Apart from that, zakat purifies wealth. As stated in the Quran Chapter 9: 103 take charity from their wealth to cleanse them and purify them, and pray for them; surely your prayer is a relief to them; and Allah is All Hearing, All Knowing. This is further supported by the word of Rasulullah (S. A. W) as narrated by Bukhari; Allah has made obligatory zakat as a purification of wealth. The importance of zakat is reflected in the Quran with much emphasis that it has mentioned about it more than a hundred times, most of it together with the command for prayer (Ahmad & Ma’in, 2014).

Thus, taking into consideration of the above Islamic command, Malaysia, being a country that the official religion is Islam, has put on initiative of institutionalizing the administration of zakat. There is a zakat institution operating in all 14 states in Malaysia such as Pusat Pungutan Zakat Wilayah Persekutuan, Lembaga Zakat Selangor, Jabatan Zakat Negeri Kedah, Pusat Kutipan Zakat Pahang and others. These institutions are responsible for carrying out the following; promoting, collecting and distributing of zakat in a manner described by the Shariah. This is believed to provide more convenience to both the zakat payers and zakat recipients where it is easier for the former to fulfil their obligations and providing a more effective, efficient and equal distribution for the latter. The recipients of zakat, also known as asnaf consists of eight categories. They are the poor, the needy, amil (those who collect zakat), the converts, the oppressed who wish to free themselves, those in debts, fighters in the cause of Allah and the wayfarers (Quran Chapter 9: 60).

B. An overview of Malaysian tax system

In many countries around the world, the government relies heavily on the tax collection money to finance the government’s expenditure and to be used as a tool...
Table 1  Revenue by main components in 2017

<table>
<thead>
<tr>
<th>Classification</th>
<th>RM (Million)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct tax</td>
<td>119,699</td>
<td>53.10</td>
</tr>
<tr>
<td>Indirect tax</td>
<td>60,495</td>
<td>26.90</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>41,906</td>
<td>18.60</td>
</tr>
<tr>
<td>Non-revenue receipt</td>
<td>2,248</td>
<td>1.00</td>
</tr>
<tr>
<td>Revenue from federal territories</td>
<td>989</td>
<td>0.40</td>
</tr>
</tbody>
</table>

Note: Data for Malaysian main revenue component in 2017, retrieved from http://www.treasury.gov.my

to boost the economic development of a country. Thus, paying tax has become a compulsory financial obligation of taxpayers’ income towards the government. In Malaysia, the Income Tax Act 1967 is used for the imposition of income tax while the Inland Revenue Board of Malaysia (IRBM) is one of the main agencies responsible for collecting revenue for the Ministry of Finance (MOF). Moreover, from time to time, IRBM will issue public ruling and practice note to include the changes in the current tax laws, especially after national budget presentation.

In general, the Malaysian federal government’s revenue can be classified into four categories, which are tax revenue, non-tax revenue, non-revenue receipts and revenue from federal territories. The tax revenue can be classified into direct taxes and indirect taxes. Direct taxes include income tax (individuals, companies, petroleum, withholding, cooperative and others) and other direct taxes (stamp duty, RPGT, Labuan business activity tax and others). Indirect taxes include export duty, import duty, excise duty, GST and others. Based on the statistics issued by the Ministry of Finance Malaysia as presented in Table 1, in 2017, 80% of the revenue of federal government derived from the tax revenue in which 53.1% is from direct taxes while 26.9% is from indirect taxes. Considering high percentage of the Malaysian income derived from the tax collection money, indirectly make the taxpayers’ become significant parties as their contribution in term of tax payment are the major source of the government. The main taxpayers in Malaysia include individuals, companies, cooperatives, petroleum, withholding and others.

Table 2 shows the detail of the direct tax collected by the Malaysian federal government in 2017. In addition to the individual income tax, the tax collection from companies has shown the highest percentage in 2017, which is 56.70%. Based on the table, the corporate tax has contributed a significant amount to the total tax collection in Malaysia. In general, the income of a company in Malaysia is assessed based on the territorial system, which is an income accrued in or derived in Malaysia is taxable in Malaysia. However, income from outside Malaysia is exempted from tax except for banking, insurance, sea and air transport companies. The standard corporate tax rate in Malaysia is 24% but beginning from YA 2017 to YA 2018, the corporate tax rate is given temporary deduction based on the incremental chargeable income of a company. Thus, the resident company with paid-up capital of 2.5 million and below,
Table 2  Direct tax revenue in 2017

<table>
<thead>
<tr>
<th>Sources</th>
<th>RM (Million)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>30,089</td>
<td>25.10</td>
</tr>
<tr>
<td>Companies</td>
<td>67,822</td>
<td>56.70</td>
</tr>
<tr>
<td>Petroleum</td>
<td>10,937</td>
<td>9.10</td>
</tr>
<tr>
<td>Withholding</td>
<td>2,904</td>
<td>2.4</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>94</td>
<td>0.10</td>
</tr>
<tr>
<td>Others</td>
<td>60</td>
<td>0.10</td>
</tr>
<tr>
<td>Other direct tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stamp duty</td>
<td>6,066</td>
<td>5.10</td>
</tr>
<tr>
<td>RPGT</td>
<td>1,641</td>
<td>1.40</td>
</tr>
<tr>
<td>Others</td>
<td>86</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Note Data for Malaysian main revenue component in 2017, retrieved from http://www.treasury.gov.my

the tax rate will 18% on the first RM500,000 of chargeable income and 20–24% is charged on the subsequent chargeable income. A resident company with paid-up capital more than 2.5 million, tax rate charged is between 20 and 24%.

The self-assessment system (SAS) on the individual has been implemented in many countries (Natrah, 2012). In 2015, SAS has been implemented in Malaysia, which requires an individual taxpayer to disclose their taxable income honestly when they submit their return. Under SAS, the taxpayers are responsible to calculate their own tax and pay any balance of tax due on time. In general, there are two categories of individual taxpayers in Malaysia, those who are salaried taxpayer and those who have business income. Taxpayer who earns salary need to fill up form BE and submit their return by 30 April every year, while those with business income need to submit form B before 30 June every year (Fatt & Khin, 2011). In the event of the taxpayer fails to submit their return, the IRBM will derive their assessment based on estimate and issue notice of assessment. To ensure the effectiveness and increase the voluntary compliance, the tax audit and investigation system are implemented and the probability of an individual taxpayer will be selected is once in every five years. Therefore, the taxpayers are required to keep an adequate record for at least 7 years in order to facilitate the tax audit.

Scheduler tax deduction (STD) is the system of tax recovery where the employers make deductions from their employees’ remuneration every month. The deduction is made based on the monthly tax deduction schedule set by the IRBM. The IRBM issued the monthly tax deduction (MTD) deductions table to facilitate employer to determine the employees MTD amount. STD is due on employment income only and neither employer nor employee has a choice not to oblige. The examples of employment income include salary, wages, commission, allowances, bonuses, tips, perquisites and others but excluding benefit in kind and value of living accommodation. In general, STD is calculated based on gross employment income minus

hajarsalwa@gmail.com
Employee’s Provident Fund (EPF) and deduct STD based on the relevant category that the employee comes under. Beginning from YA 2014, STD will be enforced as a final tax if the taxpayer fails to submit their return to IRBM.

Discussion Issues on the Implementation of Zakat and Taxation

A. Zakat as rebates for Income Tax

As for Muslim taxpayers in Malaysia, they have two obligations which are income taxes which made compulsory by the Government when they achieve certain level of income and zakat contribution when they fulfil the haul (completion of one full Islamic year) and nisab (if the amount exceeds the minimum threshold equivalent to the market price of 85 g of gold). Therefore, in order to reduce their burden, Malaysian government provides tax rebates for taxpayers who pay zakat. The rebate for zakat fitrah or other Islamic religious dues are stated under Section 6A (3) of the Income Tax Act (ITA) 1967 (Muaz, 2018). There are a lot of zakat payments that are entitled for the rebate such as zakat fitrah, business zakat, zakat gold and silver, zakat of income, zakat of the Employees Provident Fund, zakat of agriculture and zakat of livestock. Hence, Muslim taxpayers can make use of the zakat rebates wisely in order to reduce their income tax payable. The greater the amount of zakat paid, the less the amount of tax payable.

According to Muhammad Akhyar and Nur Barizah (2009), the collection of zakat is no longer limited to individual zakat payers, but also has been broadened to institutional zakat payers such as companies or corporations. For an individual taxpayer, zakat is given as per actual amount expended as tax rebates, subject to the maximum of tax charged. However, for the corporations that pay for business zakat, the amount of rebates is only restricted to 2.5% of the aggregate income in accordance with Section 44 (11A) of the Income Tax Act (ITA) 1967. Despite tax rebate being given for zakat payment and collection procedures being improved, the total collection of zakat from business income is relatively small compared to total collection of zakat from personal income (Ram Al Jaffri & Roszaini, 2014). It is the hope of Muslim businessmen for the government to consider higher business zakat rebates would be granted for the corporations since the risk and return of business sources is not fixed like employment income and this condition could be more challenging for them. For business corporations in Malaysia, they are subject to corporate tax rate between 20 and 24% in a year of assessment depending on their level of chargeable income.
B. Integration of zakat payment and Schedular Tax Deduction (STD)

In Malaysian context, the government is very committed to encouraging Muslim taxpayers who receive employment income to pay zakat. Those employees who make a deduction for monthly zakat payment through their salary income, they will be exempted from the schedular tax deduction (STD) payment; provided if the zakat contribution is parallel or higher than the STD amount. However, if the zakat contribution is lower than STD amount, they just need to pay for the difference. Even so, still zakat collection is relatively low even the population in one area is high. This is proven by a shocking report from Lembaga Zakat Selangor, only 160,000 people out of over 2 million Muslim in Selangor paid their zakat to the zakat institution (Mohd Shahril, Abd Rahim, & Muhammad Farid, 2016). The ratio of population and the number of zakat payers are inconsistent indeed.

One of the reasons is the lack of awareness and enforcement regarding their obligation to pay the zakat. Though zakat has always remained a pillar of Islam, it has ceased to be so in practice for many Muslims. Meanwhile, taxation has been enforced and the tax rule has been strictly applied in the country as compared to zakat. A proper penalty will be imposed on the tax defaulters and because of that, the compliance to the tax regulation is assumed to be more important as compared to the compliance to zakat laws (Nur Barizah & Abdul Rahim, 2007). Hence, zakat becomes just a voluntary system paid to a zakat institution under the control of State Islamic Religious Councils, even though zakat is understood as a financial form of ibadah. Therefore, according to Azman, Mohamad, & Syed Mohd Najib (2012), zakat collection method should be changed from waiting at the counter into new proactive ways such as promoting, briefing and educate all Muslim in the public and private sector. A new approach such as auto deduction from monthly salaries is believed to help the zakat institutions to collect zakat with minimum effort. This method could be more interesting to the zakat payers since it is more practical and hassle free.

C. The distribution of income between zakat and income taxation

As stated in Al-Quran and al-hadith, zakat should be distributed to asnaf only as compared to taxation whereby the distribution is made as in general by the government. Tax revenue collected by the government will be equally distributed back to the public in terms of the facility provided such as school, hospital, road and subsidy when all of the citizen either Muslim or non-Muslim eligible to enjoy such benefits. However, zakat distribution involves a lot of problems, arguments as well as discussions. According to Muharman et al. (2011), among the issues with zakat distribution are the difficulty with the distribution methods, the distribution to the qualified and unqualified asnaf and the problem with poverty that is still happening even though the zakat distribution has been implemented. All of these problems might cause dissatisfaction among the people who pay zakat which later might lead them to pay zakat directly to asnaf without going through zakat institution.

Therefore, zakat institution should think of how to improve and enhance their roles towards zakat distribution. The zakat distribution is not only to meet the short
term solution for the poor and needy. It must also include the long term solution so that it could help them in enhancing their standard of living. For example, helping the poor people by directly giving them a sum of money to buy their necessities would create a dependency on zakat recipients. This could be changed by giving financing to their children’s education or sending them to training centres to gain knowledge and skills that would improve their future employability (Azman et al., 2012). By implementing this capacity building approach, it would change the condition of the poor from being a zakat recipient to zakat contributor.

In relation to deal with the issue to identify the qualified and unqualified asnaf, many scholars gave different opinions and statements. As has been mention earlier, there are eight categories of zakat recipient including the converts. However, several reports that during the reign of caliph ‘Umar al-Khattab, he refused to give zakat to these people after Islam had become strong (Azman et al., 2015). This is based on the argument that Islam was already strong at that time and need not required their help whose previously had been given zakat. In contrast, Islamic scholars have said that ‘paying zakat to non-Muslims who will be inclined towards Islam or will help the Muslims in the case of possible wars is permissible’ (Mohammad Ali Araki, t.t.). These narrations exist due to the fact that the Prophet Muhammad gave non-Muslims zakat to entice them to become Muslims. Another Islamic scholar claimed that zakat may be given to any person fitting the description in the Quran regardless of whether they are Muslim or non-Muslim (Ibn Abi Shaibah, t.t.). They argued that the generality of the verses on zakat and charity which do not specify one type of person over the other. Thus, from all the opinions that have been discussed earlier, zakat distribution should be given eligibility to asnaf Muslim first because the objective of zakat itself is to help the poor Muslim people (Mohamad, Muhammad, Mohammad, & Ahmad, 2015). Nevertheless, it is permissible to give zakat to non-Muslim based on their needs as well as to encourage them to incline towards Islam.

**Conclusion**

As a conclusion, zakat and taxation are greatly different in terms of concept, implementation as well as problems arise. This study offers a contribution by adding to the current literature and knowledge as well as discussing the issues on the implementation of these two important elements in Malaysia. Consequently, there is a need for education, institution and government to take necessary actions to overcome the issues and problems so that zakat and taxation can be fairly implemented in the county to bring positive effects to society and nation. Further studies are needed to be empirically evidenced by the future researcher. Some suggestions include to focus on quantitative study whereby the comparison of the implementation of zakat and taxation could be further investigated between developing and developed countries. In addition, future research also could consider to include empirical data between Muslim and non-Muslim perspectives so that the successes and shortcomings of the implementation of zakat and taxation could be thoroughly evaluated.
References


Ibn Abi Shaibah (t.t.). *Al-Musannaf, 3*, 177–178.


Mohammad Ali Araki (t.t.). *Al-Masailul-Wadihah, 1*, 334.


Muhammad Ali Araki (t.t.). *Al-Masailul-Wadihah, 1*, 334.


Employability and Performance of Islamic Studies Graduates in UNISHAMS

Rahayati Ahmad, Rafidah Abdul Rahman and Zaridah Zakaria

Abstract Employability is an important key performance indicator for high education institutions. UniSHAMS as a new high education private university struggle to faced high competitive challenge in education industries with other well-established IPTS and IPTA in Malaysia. The aim of this study is to assess the employability of KUIN graduates who graduate in 2016 by examining the level of employability, job position and government fund of KUIN’s graduates from Islamic studies from 2016 across all sectors in private and public sectors of all industries across Malaysia, and to identify the level of employability, job position and government fund of KUIN’s graduates towards their achievement in education throughout the year (CGPA). The results show that most of the UniSHAMS graduates prefer to work in Professional Education Services and self-employed. Almost 52% graduates employed as full-time workers compared to 32% work as a part-time workers. In order to compete, UniSHAMS need to improve the current programme offer by upgrading them to suit with The Industrial Revolution 4.0, which is introduced by the Ministry of Education such as double degree programme, twining programme with other international universities and joint venture education programme with industries.

Keywords Employability · Performance · Islamic education

Introduction

The employability of graduates in high education institution is one of the important factors that contribute to institutional achievement in producing quality graduates and chatters the need of industries (Harvey, 2001). Employability development is an
ongoing process that cannot be achieved in short period, because it relates to human capital development in producing graduates with high knowledge capabilities and solid employment skill required by the industries (Majid & Corresponding, 2009). Malaysian public Universities such as University Malaya, Universiti Kebangsaan Malaysia, Universiti Putra Malaysian, Universiti Utara Malaysia and Universiti Sains Malaysia took several decades to produce a quality graduate employable in various industries. Malaysia private universities, on the other hand, need to work very hard to compete with Malaysian public universities to achieve an acceptable percentage of employability of their graduates to sustain in education industries. College Universiti INSANIAH also face the same problem in sustaining the level of employability of graduates over the years. Therefore, this study will identify the level of employability of KUIN graduates for the year 2016.

**Problem Statement**

he task to trace and to track graduates from the institute of higher learning has long been the exercises of universities, including UniSHAMS formerly known as Kolej Universiti INSANIAH (KUIN). Graduates gaining employment as soon as they leave universities is one indicator of employability. Employment status and graduates’ employment are the assurances of their survival that have undergone human capital development process while learning to fill the various positions required for national development. To ensure the continuity of the nation’s success, human capital plays an important role in determining the competitiveness of the country. Many previous studies show that personal characteristics are shown by someone who distinguishes performance excellence in the workplace.

According to a press statement by the Ministry of Higher Education, the average rate of Malaysian graduates’ employability increased by 1.1–77.2% in 2016 compared to 76.1% in 2015. The average rate is based on the results of the 2016 Graduate Tracer Study Review report, which has been carried out by the Ministry of Higher Education 22 November 2016. The average rate of graduates’ employment in Malaysian Higher Education Institutions (IPTs) in 5 years from 2012 to 2016 also registered an increase of 2.8%. From 224,575 graduates who participated in the study, 126,966 people (56.5%) had been employed within 6 months of graduation, 32,063 people (14.3%) successfully pursuing studies, 5,246 people (2.3%) chose to improve their skills and 9,053 (4.0%) are waiting for job placement. The rest, only 51,247 graduates (22.8%) who are still unemployed. The rapid changes in the employability level among graduates required higher education institution to upgrade their current syllabus to be more quality, well-versed, industrial based, excellence and balance in all respects, especially in graduates in shaping the quality of an Institution of Higher Learning (HEI), as well as influencing market acceptance of the ability of a graduate. Does UniSHAMS as a new IPTS cater the employability need of labour markets in Malaysia? Do the education loan supported by the government such as PTPTN help the graduates to perform and contributes to the employability among the graduates?
Research Objectives

The specific objectives of this study are:

a. To examine the level of employability, job position and government fund of KUIN’s graduates from Islamic studies from 2016 across all sectors in private and public sectors of all industries across Malaysia,

b. To identify the level of employability, job position and government fund of KUIN’s graduates towards their achievement in education throughout the years (CGPA).

Literature Review

International Islamic University Sultan Abdul Halaim Mu’azam Shah formerly known as Kolej Universiti INSANIAH (KUIN) is a university wholly owned by the state of Kedah Darul Aman and registered at the Ministry of Higher Education, Malaysia. The establishment of UniSHAMS is to produce more capable professionals in leading Islamic community and expanding knowledge of Islam, as well as to accommodate the application of religious school graduates to pursue a higher level of studies.


As a private Islamic university, UniSHAMS need to ensure the quality and the future graduates produced cater the industrial need and demand for skilled manpower and be able to produce well-versed human capital in the labour market because a systematic and comprehensive process of learning will ensure the quality of the graduates produced involved a good curriculum programmes and good teaching design method that focuses on the ability of the graduates after they graduate.

Nowadays, the increase of public and private institutions of higher learning and the number of students entering the higher education centre has further increased the pressure on competition for employment in the market. If the increase in the number of graduates is balanced with the need of labour market, the graduates will be facing with employability problems (Argentin, 2010). The problem of unemployment and the difficulty in finding employment among graduates is not a new issue. In terms of human capital development, it is a positive indicator of the increase in the number of institutions of higher learning as it provides greater opportunities for the population.
to obtain tertiary education and thus increase the accumulation of human capital in the country (Mason, Williams, & Cranmer, 2009).

However, this triggers a dilemma that is also faced by most developing countries, including countries such as Malaysia when the increase in the number of tertiary students is unable to meet the needs of the job market. Inconsistencies in supply and demand in the postgraduate labour market have raised many issues, not only in terms of the role of institutions of higher learning and courses offered; but also in terms of quality of graduates produced. The difficulty in obtaining jobs and unemployment is said to be closely related to the lack of marketability and employment skills of graduates entering the labour market (Ismail, 2012). Therefore, this study examining the level of employability of UniSHAMS graduates from Islamic studies in all sectors in private and public sectors in order to identify the strength and capability of graduates students in Malaysian labour market, since it is important to develop quality graduates in line with the rapid changes in the labour and employment markets in the future.

Research Framework

Figure 1 is a graphical representation of the conceptual framework, which represents the effect of employability, position and fund towards the performance of KUIN students. It depicts the dependent and independent variables used in this study based on past literature and findings of other finance researchers. The dependent variable to be used in the study is performance proxied by CGPA. CGPA can be defined as cumulative grade point average for all the credit hours for each subject taken for the whole semester divided by the total credit hours of the total semesters in currents and all previous semester either market leverage or book leverage. Three independent variables have been selected based on previous a study which is employability, position and government fund. The expected direction of the relationships between the independent and dependent variables were stated in Fig. 1.

Method

The main objective of this paper is to classify a graduate profile as employed, unemployed or undetermined using data sourced from the Tracer Study database for the year of 2016 of UNISHAMS. The dataset consists of 1030 students graduated in 2016. The raw data retrieved from the Tracer Study database required preprocessing to prepare the dataset for the classification task. Based on the study done by (Sapaat, Mustapha, Ahmad, Chamili, & Muhamad, 2011), first, cleaning activities involved eliminating data with missing values in critical attributes, identifying outliers, correcting inconsistent data, as well as removing duplicate data. From the total of 1500 students in the raw data, the data cleaning process ended up 1050 students that are
ready to be used and proses using SPSS statistics software. All missing values were replaced with the mean values of the attribute. Second, data discretization is required due to the fact that most of the attributes from the Tracer Study are continuous attributes. The value than being discretized into interval by transformed the dataset into categorical or nominal attributes including the control variables used in the study were measured in different ways in line with the past studies. For instance, outlier’s cases were checked through Mahalanobis distance (Nancy, Karen, & George, 2005). Similarly, the test for normality was conducted using skewness and kurtosis output of descriptive statistics. The variables that have normality problem were transformed using Log10 as suggested by (Fallis, 2013) (Refer Table 1).

Results and Discussions

A. Descriptive Analysis

The first objective of this study is to examine the level of employability of UNISHAMS students from Islamic studies 2016 across all sectors in private and public sectors of all industries across Malaysia. The dependent variable is the performance of the graduate student throughout the year, proxy by Cumulative Grade Point Average (CGPA). The independent variables consist of Employability (EMPLOY) or status of graduate categories into working as a part time, full time or unemployed, followed by position or post held by a graduate who had been employed after graduation from UniSHAMS and Type of Government Fund (LOGFUND) acquired by the students to support their study. There are also several control variables that contribute to this study such as ages (AGES), faculty (FACULTY), citizen (CITIZEN),

Fig. 1 The conceptual framework
Table 1  Attributes from the Tracer Study dataset

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Values</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEPENDENT VARIABLES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>{first class, second class upper, second class lower and below}</td>
<td>CGPA for current qualification</td>
</tr>
<tr>
<td><strong>INDEPENDENT VARIABLES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employability</td>
<td>{working part time, working full time, unemployed}</td>
<td>Status of employment</td>
</tr>
<tr>
<td>Position</td>
<td>{manager, professional, technician, office clerk, sales and services executive, fisheries, forest station, agriculture, furniture, operators machinery and manufacturing, education services and others}</td>
<td>Job description employed</td>
</tr>
<tr>
<td>Government Fund</td>
<td>{PTPTN, Mara, self-sponsor, Yayasan Al Bukhary, Majlis Agama Islam Negeri, Mybrains}</td>
<td>Government and private fund provider for education</td>
</tr>
<tr>
<td><strong>CONTROL VARIABLES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>{20–23, 24–27, &gt;28}</td>
<td>Age of the graduate</td>
</tr>
<tr>
<td>Gender</td>
<td>{male, female}</td>
<td>Gender of the graduate</td>
</tr>
<tr>
<td>Faculty</td>
<td>{muamalat, syaria and law, multimedia technology, hospitality and halal services, usuluddin, arabic language, al-quran, counselling}</td>
<td>Level of study graduated Current faculty of the university</td>
</tr>
</tbody>
</table>

Table 2  Descriptive analysis

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>CGPA</td>
<td>1035</td>
<td>1.00</td>
<td>3.00</td>
<td>2.341</td>
<td>0.600</td>
<td>−0.310</td>
<td>−0.660</td>
</tr>
<tr>
<td>EMPLOYED</td>
<td>1035</td>
<td>1.00</td>
<td>4.00</td>
<td>2.526</td>
<td>0.835</td>
<td>−0.506</td>
<td>−0.506</td>
</tr>
<tr>
<td>GOVTLOAN</td>
<td>1035</td>
<td>1.00</td>
<td>7.00</td>
<td>3.242</td>
<td>0.535</td>
<td>2.721</td>
<td>14.442</td>
</tr>
<tr>
<td>POST</td>
<td>1035</td>
<td>1.00</td>
<td>12.00</td>
<td>6.223</td>
<td>1.385</td>
<td>0.696</td>
<td>2.831</td>
</tr>
<tr>
<td>GENDER</td>
<td>1035</td>
<td>1.00</td>
<td>2.00</td>
<td>1.590</td>
<td>0.493</td>
<td>−0.348</td>
<td>−1.883</td>
</tr>
<tr>
<td>AGES</td>
<td>1035</td>
<td>1.00</td>
<td>3.00</td>
<td>1.500</td>
<td>0.645</td>
<td>0.932</td>
<td>−0.233</td>
</tr>
<tr>
<td>FACULTY</td>
<td>1035</td>
<td>1.00</td>
<td>8.00</td>
<td>3.39</td>
<td>1.953</td>
<td>0.218</td>
<td>−1.463</td>
</tr>
</tbody>
</table>

race (RACE) and country (COUNTRY). The descriptive analysis of all the variables employed in this study was presented in Table 2.

B. **Dependent Variables-Performance (CGPA)**

The dependent variable of this study is the performance proxy by the CGPA of the graduate students in the year 2016. Figure 2 verified that 52.4% of graduates...
passed with second class upper followed by 40.9% of graduates were passed with second class lower. The rest of the graduates (6.8%) passed with first class. Figure 2 shows that most of UNISHAMS graduates pass with CGPA between 3.00 and 3.67 (second class upper) compared to graduates passed with CGPA 2.00–3.66 (second class lower). The percentage of graduate students with 3.68 and above is quite low around 7%.

C. Independent Variables—Employability

The employability among UNISHAMS graduates was quite low. Most of the UNISHAMS graduates who was working full time in all sectors is 24% compared to a graduate who work as part time, 15.3%. Graduates students who are still not working but actively looking for a job is around 53.7%. The rest of the graduates preferred self-employed, which is around 7.1%. Figure 3 shows that the percentage of employability among UNISHAMS graduate students. The employability of UNISHAMS graduates were around 40% of 1050 graduates. The balances of graduate students (40%) were still searching for work.

The next independent variable is the Education Loan (LogLoan) shown that 797 or 77% graduates taken loan from PTPTN to further their study in UNISHAMS. Whereas, 223 or 21.5% graduates were self-sponsor and the rest around 15@1.5% graduates were sponsor by other government agencies and Non-Government Organization (NGO) such as MARA, Yayasan Al Bukhary, Majlis Agama Islam Negeri and MyBrain to pursue their study in UNISHAMS.

UNISHAMS as a private university, PTPTN has been the most preferable education loan for students to further studies in diploma and degree, especially for those who have low-income parents. For those students whose families with high income, they prefer to pay the education fees using their own income. The number and percentage of education fund provided by government agencies and Non-Government Organization (NGO) for UNISHAMS students was very small. Figure 4 summarizes the percentage of UNISHAMS graduate students took education loan to further their study.

The next independent variable is the position of each graduate in the job market. Figure 5 clarified that 136@13.1% of UNISHAMS graduate work in education

---

**Fig. 2** Percentage of UNISHAMS students performance
services. Around 11.4% of graduates do all sources of work in the industry while searching for the right job. A small number of graduates (1.07%) work as Technicians, Furniture, Fisheries, Forest Station and Agriculture Sectors. The level of employability in UNISHAMS is still low since 53.72% of graduates are still unemployed as mentioned in Fig. 5.

The control variables in this study were divided into six variables. There were Age, Gender, Citizen, Level of Education, Field and Faculty. The age of UNISHAMS graduates was measure based on three types of age range. The first age range is between 20 and 23 years old; followed by 24–27 years old and lastly more than 28 years above.

Figure 6 shows that most of the UNISHAMS graduates were young graduates who finished their diploma and degree, which is more than 58%. Around 33.3%
UNISHAMS graduates were adult age from 24 to 27 years old and the rest 8.3% were UNISHAMS graduates whose age is more than 28 years above, which refer to those who further their study in Master’s and Ph.D. The total number of students graduated in 2016 is about 1035. From the total of 1050, the number of female graduates is 606@ (57%) compared to male graduates which is only 429@41% (Fig. 7).

The next control variable is faculty. Actually, UNISHAMS has nine faculties. Since Kuliyyah Perubatan is a new faculty, they did not produce any graduates during the year 2016. Figure 8 shows that UNISHAMS have four Islamic studies faculty, namely Kuliyyah Syariah and Undang Undang, Kuliyyah Usuluddin, Kuliyyah Bahasa Arab and Kuliyyah Al Quran and three social sciences faculty such as Kuliyyah Muamalat, Kuliyyah Hospitaliti dan Perkhidmatan halal and Pusat Pengajian Dan Perkhidmatan Kaunseling Dan Psikologi. The highest graduates produced by Kuliyyah Syariah and Undang-undang are 299@28.89% graduates. Followed by Kuliyyah Usuluddin (259@24.7% graduates), Kuliyyah Muamalat (215@20.8%
The last control variable employed in this studied was Education Level after graduates from UNISHAMS. It was found that 78% of the graduates in the year 2016 were diploma graduates, 17% graduated with degree, 4% graduated with Master’s (Coursework and Dissertation) and the rest Advance Diploma, Master’s (Coursework) and Ph.D. with average of 0.4%. Diploma course had been the most popular programme compared to other programmes offered by UNISHAMS (refer Figs. 8 and 9).
The second objective were to compare the level of employability, job position and government fund of KUIN’s graduates towards their achievement in education throughout the years (CGPA). The numbers of graduates with second class upper and second-class lower graduates had managed to get full-time work compared to others. There are a number of graduates who prefer to self-employed by starting their own business like online business and family business as mentioned in Fig. 10.

The majority of graduates education fee were bare by PTPTN and some prefer self-sponsor. The overall performance shows that only 46 graduates PTPTN loan holders managed to convert the PTPTN loan to scholarship compared to the other PTPTN loan holders (Fig. 11).

Figure 12 shows that most of the UniSHAMS graduates prefer to choose education services as their carrier such as KAFA, JQAF, INTRIEM teachers who involved in teaching Islamic education in public and private schools. Self-employed seems to be popular among graduates because of competitiveness in working environments nowadays. Sales and services executives is the third highest demand in the working area of UniSHAMS graduates. Manufacturing and Fisheries, Forest Station, Agriculture were the lowest and less preferred by the graduates.
Figure 13 shown that Female graduates performed better compare to male graduates. 71% (50) female graduates managed to grant first-class honour, 63% (200) graduated with second class upper and 51% (214) female graduates managed to grant second class lower compare to male graduates.

Figure 14 shows that students between age 20 and 23 years old perform better compared to the rest. There are young and energetic to pursue their study compared to others. Around 37 graduates finished their studies with first-class honour and 356 graduates under the same age graduated with second class upper.

Lastly, the data shows that four main faculties or Kulliyyah that produced excellent number of students is Kuliyyah Usuluiddin Kuliyyah Syariah and Law, Kuliyyah
Bahasa Arab and Kulliyyah Muamalat. Kulliyyah Usuluddin manages to produce 25 graduates with first-class honour students, followed by Kulliyyah Syariah and Law with 24 first-class honour graduates and Kuliyyah Bahasa Arab 15 graduates. Although the highest number of graduates produced by Kuliyyah Syariah (299 graduates) and Kuliyyah Usuluddin 256 graduates, but it shows that Kuliyyah Usuluddin perform better than the rest of the Kulliyyah in UniSHAMS for the year 2016 (Fig. 15).

**Conclusion**

The aim of this study is to assess the employability of KUIN graduates who graduate in 2016 by examining the level of employability, job position and government fund of KUIN’s graduates from Islamic studies from 2016 across all sectors in private and public sectors of all industries across Malaysia, and to identify the level of employability, job position and government fund of KUIN’s graduates towards their
achievement in education throughout the year (CGPA). The results show that most of the UniSHAMS graduates prefer to work in Professional Education Services and self-employed. Almost 52% of graduates is employed as full-time workers compared to 32% work as a part-time workers. In order to compete with other IPTA and IPTS, UniSHAMS need to improve the current programme offer by upgrading them to suit with The Industrial Revolution 4.0, which is introduced by the Ministry of Education such as double degree programme, twining programme with other international universities and joint venture education programme with industries.

References


Muslim Minority in China: A Case of Uyghur Muslims in Xinjiang

Fauziah Fathil

Abstract In recent years, the Uyghurs in Xinjiang-Uyghur Autonomous Region (XUAR) have increasingly been viewed disapprovingly by the Chinese government. This followed a series of unwanted incidents that broke out in Xinjiang, especially from the 1990s onwards. Consequently, the Uyghurs who are a minority group of Turkic origin have been subjected to some repressive measures aimed to undermine their Turkic-Uyghur and Islamic identities such as the prohibition on the wearing of veils or burqas, growing beard by young men, as well as restriction on performing prayers in mosques, fasting during Ramadhan, etc. Additionally, mass internment camps were set up for indoctrination purposes. While the Beijing government argued that the measures are necessary in order to curb possible threats to Chinese national security posed by some Uyghur nationalist and separatist groups, the latter viewed the oppressive policy as an unjustified ethnic discrimination against the Uyghurs primarily due to their Turkic–Uyghur–Islamic identity that does not blend well with the dominant Chinese or Han culture. Using mainly content analysis and library research approach, the paper sheds light on the brief history of Xinjiang and the Uyghur community, as well as their socio-economic and political conditions under the Chinese rule. The contemporary situation in Xinjiang including the tenacious issue of Uyghur nationalism and separatism form the central discussion of the paper followed by the countermeasures of the Chinese government to overcome the problems, some of which are repressive, and finally, the reactions of the Uyghurs towards those measures.

Keywords Uyghurs in China · Muslims in China · Uyghurs in Xinjiang · Muslim minority in Xinjiang · Muslim minority in China
Introduction

While the world is aware of the presence of a large number of Muslims in China, not much is known about the ongoing developments in the province of Xinjiang which has the biggest Muslim population in the entire country. One main factor for such restricted knowledge is the policy of the Beijing government, which endeavours to shun the world’s attention from the much problematic province. Being caught in incessant conflicts and clashes particularly since the 1990s, the Xinjiang Muslims who predominantly belong to the Uyghur ethnic group experienced more and more oppressive measures stemmed from the central government policy in Beijing. While the government pointed to mainly politically motivated factors, blaming the alleged Muslim terrorists associated with the Uyghur nationalist and separatist movements for the outbreak of the conflicts, there is more to the issue than meets the eye. There are also sociocultural and economic factors that are worthy of attention in understanding the unending crisis in Xinjiang. Just like any other issues of this nature, conflicts inevitably lead to repercussions, and in the case of Xinjiang, the Muslim Uyghurs and Han population in the province, as well as the Beijing government are all affected in one way or another.

Literature Review

The escalating conflict that took place in Xinjiang in recent years has attracted the attention of some scholars though the same cannot be said with regard to the media given the strict measures imposed by the Beijing government. One unrelenting issue which is often linked to Xinjiang is the separatist movement on the part of the Uyghurs. This was discussed in-depth by Bovingdon (2010) who argued that the Uyghurs were driven by nationalist idea believing that they belonged to a distinct Uyghur nation, having their own land, history, culture and language. In short, Uyghurs’ resistance, according to the author, was prompted mainly by nationalism rather than Islamism, hence dismissing the religious factor pointed out by some other scholars. Based on the aforesaid argument, he dwelled on the reasons for the Uyghurs to resist their incorporation into the Chinese nation state and how the latter attempted to overcome that resistance. While he did not consider Islamism as the main cause for the Uyghurs’ resistance, yet he argued that the perception of Islamic threat worldwide, along with some other factors has turned the Xinjiang into an international issue rather than merely a domestic issue of China. Also moving away from the religious issue, Dwyer (2005) focused instead on language and its relation to the politics of Uyghur identity, arguing that the language is very central to Uyghur ethnic nationalism. Due to the assimilative nature of Chinese language policy particularly from the 1990s onwards, the author contended that this contributed to the rise of Uyghur nationalism and separatist movement in Xinjiang. As opposed to these two studies, Kaltman (2014) explained the ongoing ethnic tension in Xinjiang as
partly related to the rise of the so-called Islamic fundamentalism among the Muslim Uyghurs. At the same time, the government’s repressive policy towards religious minorities, according to him, further contributed to the problematic situation in the region.

Another comprehensive work on the Xinjiang problem was by Starr (2015) which contained various articles on the issues under study. Starting with the political and cultural history of the Xinjiang region, the work covered various issues ranging from socio-economic developments in contemporary Xinjiang, the situation of Muslims in the province and their response towards Chinese rule, as well as the latter’s policy towards the people of Xinjiang. On the issue of Uyghur separatist movement, ample information was given including that related to the United Nations’ and United States’ stance and the various Uyghur associations and their networks outside China. Equally important study is by Hayes and Clarke (2015), which explored various social, economic and political conditions in Xinjiang, and in doing so, identified the causes for the outbreak of ethnic tension between the Muslim Uyghurs and Han community. Other in-depth studies on the Uyghurs of Xinjiang include by Clarke (2011), which covered from the time of the annexation of Xinjiang by the Qing dynasty in the 1750s, until the present times, Dillon (2004), Warikoo (2016) and Chaudhuri (2018). In these works, various issues were examined ranging from history, socio-economic and politics of Xinjiang, the reasons for conflicts as well the government counter-policy in the wake of some violent incidents in the province.

Following the resistance against the Chinese rule, some Uyghurs left for other countries, although still very much involved in the Uyghur nationalist movement. On this topic, Ercilasun and Ercilasun (2018) for instance, discussed the Uyghur Diaspora in addition to some other Uyghur-related issues in the twentieth century. The question of Uyghur ethnicity, history, religion, nationalism were all linked up together by the authors in providing knowledge about the current situation of Uyghurs inside and outside Xinjiang. Of the many events, they emphasized particularly the Urumqi incident of 2009, assessing its impacts on the Uyghur–Beijing and Turkish–Chinese relations. Similarly, Brophy (2016) touched on the Uyghur Diaspora and the struggle for their own history and identity. Nevertheless, as intended by the author, the work concerned not only with the Uyghurs in China but also in Russia, looking at their involvement in intellectual and political developments in both countries.

Focusing mainly on the separatist resistance in Xinjiang, Millward (2004) studied the numerous clashes involving the Uyghurs in the Xinjiang region. Starting with a summary of nearly two and half centuries old history of clashes in Xinjiang and Central Asian republics, the author narrowed down to the violent events in the Xinjiang province since the 1990s, making use of mainly international press reports and materials published by the Chinese government. While the clashes, as maintained by the author, were serious which explained the decision of the United Nations, United States and China to recognize certain separatist groups as terrorists, he concluded that the severity of the crisis was somewhat exaggerated and that the resistance has gradually subsided due to the countermeasures of the Chinese government. Davis (2008) too, took interest in the separatist movement of the Uyghurs explaining various reasons for the outbreak of numerous unwanted incidents in Xinjiang and the
government’s response to the movement. While the ‘Strike Hard and Maximum Pressure’ campaign launched by the government, according to the author, was successful in clamping down the separatist activities, unlike Millward, Davis expected the crisis to escalate in future due to the repressive nature of the policy. She also highlighted the diverse groups and their different agendas among the Uyghurs which caused them to be divided and indecisive in their struggle against the government. Other studies on the separatist resistance include for instance, by Debata (2007) and Holdstock (2015). In relation to the nationalist movement, Chen (2014) for one, provided an in-depth information about the World Uyghur Union or WUC, which currently is the most active in lobbying world politics for Uyghur’s self-determination and promoting awareness among the world community pertaining to issues surrounding the Uyghur people. Not only did the work discuss the origin of the WUC, but also its strategies, global networks, as well as the impacts of its activities on public opinion and policy of some governments particularly the United States, Germany, Australia and Japan.

Methodology of Study

Given the nature of the topic, content analysis and qualitative approach are used in gathering the relevant data from various sources which include published books, journal articles and online materials. The occurrence of some recent developments or events particularly those related to new government measures also means that online news are indispensable in collecting relevant information for the paper. As part of the qualitative approach process, the collected data is analysed and scrutinized, leading to useful information being extracted and irrelevant information eliminated in writing the paper. The extracted information, in turn, underwent the process of careful comparison with other proven sources to ensure accuracy and consistency of facts.

Historical Background

Officially known as Xinjiang-Uyghur Autonomous Region (XUAR), Xinjiang is the largest province in China, sharing borders with Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan, Russia and Mongolia. Prior to its annexation by China, Xinjiang along with some present adjacent Central Asian countries used to be known to the Chinese as the ‘Western Provinces or Regions’ (Xiyu) and from the second century C.E. were under minimal Chinese influence. The local leaders, while acknowledging the sovereignty of the Chinese emperor, ruled their areas independently. The interest that China had in Xinjiang during these early centuries was obvious in view of the importance of the ancient Silk Route that stretched across Xinjiang linking up China all the way up till the Middle East and Europe. Located in a strategic area in the middle
of the route and close to neighbouring countries like Iraq, Persia, Afghanistan, and Central Asia, Xinjiang was undoubtedly important to China not only for economic reason but also politico-strategic reason, i.e. to portray and maintain the superiority of China as the ‘Middle Kingdom’ exemplified by the clash between the Tang and Muslim Abbasid governments in the eighth century C.E. for political hegemony over Central Asia. In 1759, the area was finally absorbed by the Qing dynasty hence, sealing the fate of Xinjiang to be forever a part of China. The area was officially renamed Xinjiang which means ‘New Frontier’. Despite this change, the ruling of the area, however, remained very much in the hands of local Muslim leaders until the twentieth century. Under the rule of the Peoples’ Republic of China (PRC), the province was renamed as the XUAR in 1955 on account of its unique position in China. Unlike other provinces in China proper whose population are predominantly Hans, one single most populous group in Xinjiang are the Uyghurs with their distinct culture, ethnic identity, language and religion; a Turkic heritage that they shared with other Central Asian communities like Kazakhs, Uzbeks, Kyrgyzs, etc.

In terms of the population of Xinjiang, the majority belongs to the Uyghur Turkic ethnic group. The Uyghurs are predominantly Sunni Muslims of Hanafi School, inheriting the religion of Islam from their forefathers and ancestors. The history of the coming of Islam to Xinjiang has extensively been discussed with many scholars pointing to the tenth or eleventh century C.E. as the period during which Islam first made a real impact on the people of the area. It was not until the fifteenth century that the Islamization process finally completed with the majority of people living in Xinjiang became Muslims (Fuller & Lipman, 2015). While there are other provinces in the northwest and northeast China such as Ningxia, Gansu and Qinghai which also have a substantial number of Muslims, Xinjiang has the largest concentration of Muslims in the whole country. Nearly, half of the total 23 million Muslims in the country (the Muslims accounted for 1.7% of the entire population in China of 1.4 billion) resided in Xinjiang. Apart from the Uyghurs who formed about 48% of the Xinjiang population, other ethnic groups include Kazakhs (7%), Hui (5%), as well as small number of Tajiks and Kyrgyzs, all of whom are Muslims by faith. Another major group second only to the Uyghurs are the non-Muslim Hans who constituted about 40% of the Xinjiang population. Originating from different parts of China, their migration was orchestrated by the government especially from the 1950s onwards in order to balance up the Muslim population in the area. It is the existence of the large number of Hans whose culture and tradition are very different from those of Turkic Muslim Uyghurs that cultural differences prevailed leading to the outburst of ethnic clashes between the two groups.

Of course, the cultural diversity is not the only problem facing the people in Xinjiang. As the paper will demonstrate, there exist other roots of crisis such as the nationalist aspiration of the Uyghurs and various socio-economic and political issues. Not only did they result in the occurrence of street protests, violent riots and the demand for self-determination and provincial autonomy, but more importantly, in the separatist movement, i.e. the desire to break away from China and form an independent Uyghur state known as Uyghuristan or Eastern Turkestan Islamic Republic, which is clearly detrimental to China’s national interest. On the part of the
Chinese government, these incidents and inclinations involving the Uyghurs necessitated countermeasures which include both soft and hard policies in order to ensure that Xinjiang forever remained as part of the PRC. While the government’s countermeasures did manage to bring limited peace and order to the Xinjiang province, it is doubtful whether they will last especially in view of the hardening attitude of the government towards the Muslim Uyghurs in matters of Islamic identity and practices in recent years. In short, as the paper will illustrate, the problems in Xinjiang not only involve conflicts between the local Uyghurs and migrant Hans, but also between the Uyghurs and central government of the PRC.

Social and Economic Issues

In understanding the conflicts in Xinjiang, several factors and issues need to be looked into. While there are few factors related to the economy of the people in the area, others are social or cultural in nature, i.e. to do either with language, ethnicity or religion. Their impact in relation to the conflicts, however, differs with the social issues being more dominant or causing greater tension between the Uyghurs and the Hans, and between the Uyghurs and the PRC government.

Before discussing further the issues, one significant development that exacerbated the situation in the province and caused the socio-economic problems to surface in the first place is the large migration of Han Chinese particularly from coastal cities in the east to Xinjiang. From the 1950s onwards, millions of Hans had migrated to Xinjiang, having been either encouraged to do so or systematically transported by the government for the purpose of integration and assimilation of the minority groups with the larger Han population. Consequently, if in the 1940s the Uyghurs constituted three-quarters of the population in Xinjiang, their percentage has now decreased to nearly half with the Hans constituted about 40% of the total populace. As indicated in the 2007 statistic, the Uyghurs comprised about 9.65 million while the Hans grew from merely 200,000 in the 1940s to 8.3 million (Bovingdon, 2010). Unlike the other groups in Xinjiang like the Hui, Kazakhs, Uzbeks and Kyrgyzs who shared common traits in one way or another with the Uyghurs either in respect to creed, ethnicity and language, the Hans on the other hand, stand totally far apart from the Uyghurs professing different faiths, belonging to a non-Turkic origin and using different languages. Despite the government’s plan for integration and assimilation, the processes are slow with only a small number of Uyghurs of educated class readily embraced the Han culture, though not in the matter of religion. In short, the migration led to the creation of a complex multiracial and multilayered society in Xinjiang characterized by economic disparity, unequal distribution of power and privileges, as well as social tensions due to cultural differences. As pointed by Dillon (2006), at the bottom of social hierarchy are the poor Uyghurs whereas government civil servants and military personnel, who are mostly Hans, monopolize political authority and have access to better social and economic benefits in Xinjiang.
Coming to the economic issues, the geographical distribution or settlement of the people and the government policy are worthy of attention as they contributed to the unequal distribution of wealth among the people of Xinjiang. Unlike the Han Chinese migrants and settlers who concentrated in the urban areas such as the capital Urumqi (or Urumchi), the sedentary Uyghurs traditionally populated the oasis settlements, which once served as the Silk Road, far from urban cities and towns. The Hans’ choice of settlement is understandable as the urban areas offer more economic opportunities, better infrastructures and sense of security living among their own people. Majority of the Uyghurs on the other hand, can be found inhabiting oasis towns that are scattered across the region working primarily in agricultural and handicraft industry. In the meantime, the government’s effort to promote new industries mainly in urban centres rather than targeting underprivileged ethnic groups, means that greater benefits mostly went to the Hans than the rural Uyghurs. The Hans currently dominated 75% of the various industries in Xinjiang, which centred in the urban areas like Urumqi. These situations inevitably led to the economic disparity between the Uyghurs and the Hans which in turn caused ethnic tension to rise. In the view of many Uyghurs, the Han migrants have unfairly monopolized the province’s wealth while the PRC government being biased favouring the Hans over the people of the land.

The social issues, albeit more important, are even more complex. For many Uyghurs, nothing could take away their identity, first as people of Uyghur ethnicity of Turkic origin, and second as Muslims. In relation to ethnic identity, Uyghur language and Turkic history and heritage are of paramount importance. Yet, to the PRC government, for integration and assimilation purposes, the Uyghur ethnic identity has to be toned down if not completely undermined (Dwyer, 2005). The use of Han language was encouraged and Confucian education was promoted among the non-Han population in Xinjiang, while Turkic history was rewritten. This caused the Uyghurs to react disapprovingly leading to the conflicts between the community and the Chinese authorities. Instead of lessening the attachment to their own language, history and heritage, the Uyghur nationalism intensified, even more, culminating in open demonstrations, protests and ethnic riots, as the group fought to keep their ethnic identity intact. As the discontentment and nationalism increased, it led to the idea of provincial autonomy as well as political separatism among some members of the community, arguing on the basis of distinct Uyghur ethnic identity and political history.

The religious issue is similarly intricate in the sense that the Uyghurs being Muslims are mistakenly perceived by the Chinese government, especially in the wake of the 9/11 incident, as prone towards terrorism, something that the government linked to the so-called ‘war of terror’ against worldwide Muslim extremists and fundamentalists. Such a perception emerged due to several factors, namely the demand among some Uyghurs for a separate independent state called Eastern Turkestan Islamic Republic, the occurrence of violent incidents in Xinjiang linked to some alleged Muslim groups, as well as the failure of the Chinese government to really comprehend how Islamic faith is unrelated to terrorism or extremism. Although no compulsion was made to convert the Muslim Uyghurs to Han religions such as Confucianism,
Buddhism and Daoism, measures were taken to diminish the religious sentiment of the Uyghurs, sometimes forcibly. Religious restrictions were imposed on various aspects of life of the Muslim Uyghurs, starting with few measures in the 1950s and 1960s, and further increased from the 1990s onwards due to the escalating conflicts. Starting with the closing down of mosques and Islamic schools or madrasah that failed to register with a central government body, the government banned Muslim individuals under the age of eighteen entering mosques or praying in public places like schools, banning of wearing of veils or burqas by Muslim women, prohibiting Muslim government servants from fasting during the month of Ramadhan, banning the wearing of clothes with signs of stars and moon, etc. Other repressive measures include prohibiting Muslims from naming their newborns with common Muslim names such as Muhammad, Islam, Imam, or names with ‘Turk’ root such as Turkizat or Turkinaz, banning adult Muslim males aged below fifty growing beard, banning those who refused to pledge loyalty to the ruling Chinese Communist Party (CCP) performing hajj, disallowing Muslim children attending Islamic lessons during weekends and so forth (Hillman, 2017; Perper & Chan, 2018). The oppressive measures affected not only the Uyghurs but also other Muslim minorities in Xinjiang. While there are many issues of concern among the Uyghurs which caused them to complain and protest against the Hans and PRC government, it is erroneous to think that the Uyghurs are the only ones who feel unhappy with the situation in Xinjiang. In fact, the Hans too feel like they are being treated unfairly vis-à-vis the Uyghurs by the central government though their level of discontentment is far less than that of the Uyghurs since there are no repressive measures against their religious practices, language and culture. That notwithstanding, this did not restrain them from channelling out their grievances against the majority Uyghurs, hence leading to ethnic clashes between the two communities. There are some privileges given to the Uyghurs as the actual people of the land which the Hans viewed as discriminatory against their group such as greater number of Uyghur enrolment into local universities and the flexibility given to Uyghurs with regard to family planning (Wei & Gang, 2009). This too resulted in the current problems facing the Xinjiang province.

**Political Issues, Autonomy and Separatist Movement**

Of the many provinces, Xinjiang along with some other provinces like Inner Mongolia and Tibet are noted for their troubled political history which included attempts to break away from China. While this desire of Xinjiang posed a serious political threat to the united China, there are other political issues which troubled the people of the province and alarmed the PRC government. One such issue, albeit less serious than the separatist movement is the demand among some Uyghurs for greater ethnic autonomy in their home province. Despite the official name, Xinjiang-Uyghur Autonomous Province given to the area in 1955, there has been no autonomous power exercised by the Uyghurs as the government believed that China’s national
unity and ethnic assimilation of the minorities into the majority Han culture are of greater importance than ethnic autonomy (Gladney, 2004). Unsurprisingly, this caused some Uyghurs to protest against the government as the latter failed to materialize their aspiration for ethnic autonomy which entails greater political power in Xinjiang.

A more problematic issue is, of course, the separatist or independence movement which by no means a recent development. In fact, there has been an incessant struggle for independence from the PRC rule and it succeeded at least twice, i.e. in the 1930s and 1940s respectively. The movement continued into the 1950s onwards leading to the formation of several underground parties such as the Eastern Turkestan People’s Party (ETPP), and resulting in the occurrence of sporadic bombings, riots and protests particularly in the 1980s, 1990s until the present day (Dillon, 2006; Bovingdon, 2010). The main objective of the independence or separatist movement is to revive the former Eastern Turkestan state or Uyghurstan which had been founded in the 1930s and 1940s. In 1933, the Turkic Islamic Republic of Eastern Turkestan centred at Kashgar was founded by local Muslim leaders amidst the chaotic condition in China at that time before it was crushed by a Chinese general. Later, in 1944, once again, the Eastern Turkestan Republic was established, centred in Yining (Ghulja). As with the first time, the Republic was created by a coalition of Uyghurs, Kazakhs and other Muslim local groups (Benson & Svanberg, 1998). Both Islamic Republics were short-lived. The first lasted only a few weeks, while the second lasted for about 5 years (Chen, 2014). Apart from the chaotic condition in China at that time where there had been continuous wars between communists of the Chinese Communist Party (CCP) and nationalists of Kuomintang for control over power, the ancient tradition of self-governing administration as practiced during the imperial era, where the administrative power was entrusted in the hands of local leaders trained in the Confucian classics (Millward, 2004), lives on in the thinking of many Uyghurs in twentieth and also twenty-first century Xinjiang, which explained the demand for the creation of an independent Islamic Uyghur state.

In demanding for either political autonomy or actual separatism, Uyghur nationalism and their distinct political past, exemplified in the creation of self-independent republics, are undoubtedly the main contributory factors. That said there are other factors worth discussing which also caused political discontent among the Uyghurs. The prevailing administration and politics in the current Xinjiang, for instance, is unsatisfactory to the Uyghurs as political power is monopolized by appointed leaders of Han origin from the Chinese Communist Party (CCP), the ruling party in China. While there are some Muslim minority leaders who have been promoted to senior positions in Xinjiang’s local government, yet, generally, the real power is in the hands of the predominantly Han Chinese officials of the CCP (Dillon, 2006). Looking at the political history of Xinjiang, the Uyghur-Han political conflict was not of a recent phenomenon since there had existed several Uyghur revolts and rebellions for instance, in seventeenth and eighteenth centuries, against oppressive government officials of Han origin (Millward, 2004). In addition to the lack of political power held by the Uyghurs, the location of Xinjiang province which is geographically remote from China proper further explains the demand for autonomy and separatist
tendency. Xinjiang’s capital, Urumqi, for instance, is nearer to Baghdad and New Delhi than Beijing. Moreover, the region’s natural barriers namely the Gobi Desert and mountainous ranges such as Altun Shan renders Xinjiang non-accessible and isolated from the China proper which means that direct control and close monitoring by the central government has not always been easy (Benson & Svanberg, 1998; Starr, 2015). Moreover, connected to the landscape of Xinjiang is the close attachment of the Uyghur people to their locality. This in turn, as argued for instance by Bovingdon (2010), contributed to the strong nationalism among the Uyghurs. Unlike the Hans, the Uyghurs rarely travel to other parts of China and settle in new places. While some Uyghurs do travel either for work or study, they always end up in their home province. Furthermore, there is also an external factor to consider that is, the establishment of independent Turkic nation states of the former Soviet Union. The Uyghurs are believed to be inspired by their Turkic neighbours who, upon the collapse of the Soviet Union in 1991, managed to form independent sovereign states of their own, namely Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan and Kazakhstan (Dillon, 2006; Bovingdon, 2010). The intensity of pro-separatist activities in Xinjiang especially from the 1990s onwards unsurprisingly, corresponds to the formation of the Central Asian states in the early 1990s. At one point, the Chinese government was of the view that the separatist movement was also caused some ‘hostile foreign forces’ which tried to split up China, taking advantage of the collapse of the Soviet Union by hinting to some Turkic Central Asian states and Turkey (Dillon, 2006).

Few scholars in the meantime chose to explain the Uyghur demands on the basis of loyalty to kinship or clanship which replace the idea of a unified Chinese nation state of Chinese nationalism. To elaborate further, the Uyghurs, as with other Central Asian Turkic groups like the Kazakhs, Uzbeks, Kyrgyzs, etc. are argued, by their nature to have a strong clanship sentiment or exclusive nationalism which runs contradictory to the Chinese Han inclusive nationalism (Chen, 2014; Roy, 2000). Finally, China’s Open-door policy that began in the 1980s may have also been a contributory factor since the policy means more flexible approach in dealing with both domestic and international issues hence, indirectly resulted in the growing Uyghur ethnic consciousness and identity (Dillon, 2006; Zang, 2012).

As the political demands and separatist tendency increased with the rise of Uyghur nationalism, there had been many violent incidents in Xinjiang, connected in one way or another to the Uyghurs. Starting with a few incidents in the 1980s, the frequency and severity of the incidents increased throughout the 1990s and later the 2000s. The most serious being the Urumqi Riot that occurred on 5 July 2009. Having originated from a separate incident in the Shaoguan Incident in Guangdong province which involved the killing of two Uyghur men, the riot exploded in Urumqi as the Uyghur community in Xinjiang demanded for justice, leading to a violent ethnic clash between the Uyghurs and Hans. Few hundreds died and few thousands injured in the riot particularly the Hans, properties destroyed and tens of Uyghurs were executed for their involvement in the incident.

The discussion would not be complete without some information on the Uyghur nationalist and separatist groups or organizations. There are many groups or orga-
nizations that call for greater Uyghur autonomy or separatism, some of which have been linked by the Chinese authorities to terrorist groups. Of these organizations, the most active include the Eastern Turkestan Islamic Movement (ETIM) and the World Uyghur Congress (WUC). Both serve as an umbrella to many splinter groups whose branches can be found in many countries all over the globe. The ETIM compared to the WUC is more aggressive in achieving their agenda having involved in various sporadic attacks, protests, bombings, etc. while the WUC, as maintained by its leaders, chose to mainly involve in world lobby, getting foreign governments to support Uyghurs’ national right for self-determination and also in disseminating information to world communities about various issues related to the Uyghurs (Chen, 2014). On the part of the Chinese government, those affiliated with independent movement such ETIM have been linked to terrorist groups Al-Qaeda and Taliban and branded as terrorist organizations though this view is not shared by some quarters (Millward, 2004; Bovingdon, 2010).

**Countermeasures and Policies of Beijing Government**

In dealing with the problems in Xinjiang, several countermeasures have been carried out by the PRC government, some being subtle and accommodating, while others harsh and repressive. Of the first group, assimilation and integration of the Uyghurs into the mainstream culture is one approach which the government believed to be very crucial for the stability and unity of the country. Chinese nation (zhonghua minzu), under the PRC, consists of the Hans who formed 90% of the population of the country as the majority and 55 ethnic minorities, one of which being the Uyghurs (Chen, 2014). Just like other minority groups, the Uyghurs were encouraged to learn Han language, to be educated in the Confucian system and imbued with Chinese nationalism instead of Uyghur nationalism. Also of the first type of measures are government’s efforts to uplift the socio-economic situation of the Uyghurs in Xinjiang in the hope that the people, having enjoyed the benefits from some socio-economic programmes and developments carried out by the government, would stop involving in subversive activities. In order to reduce poverty and develop the region, the government introduced the ‘Great Development of the Western Regions’ (xibu da kaifa) in 2000, targeting the whole of western region including Xinjiang, Ningxia, Gansu and Qinghai (Dillon, 2006). In Xinjiang itself, the policy unfortunately, seemed to have affected mainly urban areas and this means that the benefits have not been evenly distributed among the population, rather been reaped mainly by the Hans who populated the urban centres.

In addition to the above policies, given the complexity of the problems in Xinjiang particularly the separatist movement among the Uyghur community, some harsher and oppressive measures were introduced by the PRC government. The aim was none other than to ensure that Xinjiang would forever remain a part of China and the Uyghurs to accept the idea of Chinese nation and act accordingly as loyal Chinese nationals. Zero tolerance was adopted with regard to the Uyghur or Xinjiang
separatism, something which the PRC government had successfully done when it dealt with a similar movement in Tibet and Inner Mongolia previously (Bovingdon, 2010). Any separatist movement was viewed by the government as a major threat to national unity and stability, thus must be effectively and swiftly crushed. Separatist individuals were arrested, imprisoned, sent into exile and some executed.

For the same assimilation and integration purpose, several oppressive measures were taken in relation to Islamic institutions and religious practices. As a socialist country, Islam was feared to have served as an alternative to political allegiance to the PRC, hence the religion, in the view of the government, is a potential source of instability and chaos in Xinjiang. Following the establishment of the PRC in 1949, various measures had been taken at varying intensity, the most stringent during the ‘Great Cultural Revolution’ in the 1960s. Among the measures during that period include the abolition of private land holding by mosques or imams, attacks on Islam, the closing down of mosques and the burning of Quranic and other Islamic books, etc. (Zang, 2012) The PRC government also sought to regulate Islam by creating a national regulatory body, the Chinese Islamic Association, and by requiring all mosques and religious schools or madrasah to register with local officials. Unregistered mosques and madrasah were forced to close down. Following the occurrence of a series of violent incidents in the 1990s, the ‘Strike Hard and Maximum Pressure Campaign’ was launched in 1996 leading to more repressive measures against unofficial religious activity and any subversive activity in Xinjiang (Dillon, 2006). Restraints were also imposed on traditional Islamic rituals and practices of Muslims such as praying, fasting, wearing of Islamic dresses, learning Islamic knowledge by Muslim children, etc. Not only would this, in the view of the government, lessen the allegiance or attachment to Islam among the Uyghur Muslims, but also making the assimilation and integration efforts easier to achieve.

Other strict measures include heavy policing and surveillance over the Muslim community in Xinjiang and their activities by the Chinese government. Tens of thousands of security personnel have been transferred to Xinjiang in recent years with police stations placed on nearly every block to curb the separatist movement (Perper & Chan, 2018; The National, 2017). In the meantime, strict censorship and state control was imposed on the media and press in order to ensure that the Uyghur issues would not be widely disseminated otherwise this might attract the attention of international human rights organizations or worst still cause the Uyghur nationalism to intensify even more. Uyghur independence-related news is never allowed to appear in the official media in China. Instead, only positive news such as successful economic or social developments was reported (Dillon, 2006). Despite such attempt, news began to leak out from 2018 onwards regarding government’s effort to indoctrinate Uyghur Muslims in numerous mass concentration camps built throughout the province. The number of detainees however, varies ranging from several hundred thousands to nearly one million.

In carrying out the abovementioned measures, no doubt the strategic value of Xinjiang to China plays a very important role, for which the PRC government adopted a zero tolerance policy towards the Uyghur separatism. Although Xinjiang is mostly desert and barren land, the fact that it is the largest province covering 1,646,000 km²
and accounted for one-sixth of the total area of China means that a free independent Xinjiang would seriously result in China losing massive tract of land as well as status as a strong nation. Apart from the vastness of the area which in the future would come in handy in dealing with the overcrowding problem in the central and eastern part of China, more importantly, the region is rich with natural gas and oil reserves, estimated at around one-third of the country’s total, hence making Xinjiang an indispensable area for the country’s economic security (Bovingdon, 2010). The area is also abundant with other minerals such as gold, tin, silver, copper, coal, uranium and molybdenum (Benson & Svanberg, 1998). Another economic potential of Xinjiang is to become the main cotton producer in China due to its climate that is conducive for cotton planting, something that the government has as its future plan in Xinjiang. Not to mention, Xinjiang also serves as a gateway to the markets of Central Asia for Chinese-made products and a corridor for energy resources to China from the Central Asian countries. As proven recently, project plans have been made to construct natural gas and oil pipelines from those countries to China via Xinjiang hence, providing the much-needed resources for China’s industrialization. Finally, in addition to the economic reasons, Xinjiang strategic location had served and would continually serve as a potential buffer zone against any possible threats from the north, as proven during the previous Kokandi (a Central Asian power) invasion of China in the early nineteenth century and Sino-Soviet crisis in the mid-1950s–1960s. (Hayes & Clarke, 2015; Bovingdon, 2010; Starr, 2015).

### Uyghurs’ Reactions to Beijing Policies

While the government policies did to some extent curtail the growing problem and tension in Xinjiang, the Uyghur nationalism remained strong if not increased even more due to the repressive measures. Starting with a few protests and riots in the 1980s, the number of incidents which involved more serious and violent events increased throughout the 1990s and 2000s. This is to be expected given the strong sense of ethnic identity among the Uyghurs, their political history, the geographical location of Xinjiang far away from Beijing, strong Uyghurs’ attachment to their locality and clanship, and the aspiration which the neighbouring Turkic Central Asian states continually feed to Uyghurs which make them persistently aware of their distinct identity and of the need for autonomy or independence to preserve that very identity. In the meantime, the presence of large number of Hans and their monopoly of Xinjiang’s political authority and economy, and being the ones who benefit the most from the social infrastructure due to their settlement in urban centres, caused the Uyghurs to feel deprived of all the benefits and advantages in their own home province Xinjiang.

The Uyghur nationalist sentiment and the socio-economic and political inequality inevitably led to clashes to occur not only between the Turkic-Uyghur ethnic group and Han population, but also between the Uyghurs and Chinese authorities. If the clashes with the Han involved mainly protests and ethnic riots, the clashes with the
government entailed more serious repercussions such as attacks on police stations and bombnings. Having mentioned the problems and conflicts in Xinjiang, it is worthy to point out here that the Uyghurs’ stance is by no means of one single view. Among the Uyghur community itself, there are at least three groups, each with its own view regarding the position of Xinjiang within the context of the Chinese nation state. The first group consisted of mainly educated and secular Uyghurs has no problem with Xinjiang to remain as part of China. To them, their distinct identity could best be preserved by living peacefully alongside the Hans or else they might lose their national identity entirely like what happened to Mongols of Inner Mongolia who have been reduced to a small minority and loss many of their traditional ways of life following strong resistance against the central government. The second, which many moderate Uyghur nationalists belong to, is concerned with the national rights of the Uyghurs as the actual people of Xinjiang which entails actual Uyghur political autonomy within China. Part in parcel of this idea is the preservation of Uyghur culture and language and of Islam, without the demand for outright independence of Xinjiang. The last group, whose members are affiliated with separatist or independence movement, strive to permanently detach Xinjiang from China proper to form a sovereign and independent Uyghur state. To achieve this, the use of force is deemed as necessary (Fuller & Lipman, 2015; Davis, 2008). For the last two groups, their propaganda and activities can be seen taking place not only inside Xinjiang, but also outside China with splinter groups being formed in other parts of Asia, North America and Europe.

**Conclusion**

The prevailing situation in Xinjiang, though indicates escalating tension, has so far drawn minimal attention from a worldwide community or mainstream media in China itself. To China, it is strictly a domestic problem which the country needs to handle by itself far from the scrutiny of the world community. Yet, for the Uyghurs who involved in self-determination and separatist movement of Xinjiang, their dreams most likely would not come true without the support or pressure from foreign governments and world community since China would never tolerate any attempts to break Xinjiang free. In the meantime, the assimilation and integration persistently pursued by China would continue to take place in Xinjiang, and to some Uyghurs unless some drastic or desperate measures were taken, as manifested in the sporadic conflicts and unwanted incidents, they would eventually lose their distinct ethnic identity, something which the group is not ready to live without. On the part of China, the troublesome situation in Xinjiang calls for effective measures which include not only subtle and accommodating policies, but more importantly, as the tensions increased, firm and repressive actions to end the problem once and for all. While some of the measures are somewhat successful in reducing the threat to the stability of Xinjiang, they also have the potential to cause the tension to escalate even more thus, making the problem to linger and drag further.
References


hajarsalwa@gmail.com