

STRENGTHENING BUSINESS GROWTH MODEL FOR COOPERATIVES THROUGH THE IMPLEMENTATION OF SHARIAH-BASED QUALITY MANAGEMENT STANDARD MS1900:2014

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Abstract: *A standard is an agreed-upon, reproducible procedure. Islam provides guidelines for applying a noble standard in daily life, in addition to guidance for business organizations. Malaysian Standard (MS) 1900:2014 is a standard that specifies the requirements for a Quality Management System that complies with shariah. The advantages of the MS 1900:2014 Shariah-based Quality Management System ensure that the universal values of justice, honesty, veracity, sincerity, punctuality, and discipline are incorporated into the quality management practices. In addition, it will place a greater emphasis on ethical standards in business operations. Finally, the organization will receive independent confirmation that its processes and practices adhere to Shariah principles. In 2008, only five companies obtained this certification, and ten more in 2011. In 2012, after one year, approximately 18 organizations had obtained the MS1900:2005 certification. Presently, approximately forty organizations have attained MS1900:2014 certification. Increasing numbers annually demonstrate the significance and vigilance of implementing Islamic principles in business organizations. Despite this, the number is still minuscule in comparison to the vast number of businesses in Malaysia, including cooperatives. An in-depth understanding of how organizations, in particular Cooperatives, could utilize the Shariah-based quality management system MS1900:2014 to enhance business growth was pursued using a case study approach. Eight major Cooperatives from the Top 100 List in 2021 were interviewed for elucidation on the topic of the study. SIRIM was also contacted to obtain additional information about the standard. The study's findings contribute to the body of knowledge, particularly in the area of quality management system, as well as to the practice, primarily through a better understanding of how cooperatives can enhance their business growth by implementing the Shariah-based Quality Management System MS1900:2014. This will result in enduring economic growth.*

Keywords: Malaysian Standard (MS) 1900:2014; cooperatives; quality management system; business growth

1. Introduction

One of the important factors in business to sustain in the market is to maintain and manage the quality of the product/service provided. One way of doing this is by having a standard

quality system or an accreditation from the standard bodies (for example in Malaysia, the body who governs the accreditation of standards is SIRIM Berhad). This is also to ensure that their business operation is managed accordingly to the international standard quality. Many scholars have investigated topics on quality management activities such as Total Quality Management (TQM), Quality Control and Quality Assurance (i.e, Easton & Jarrell, 1998; Kannan & Tan, 2005; Powell, 1995; Robin & Kehoe, 1994; Samson & Terziovski, 1999; Chiarini, 2020; Shahibah, Hariadi & Baridwan, 2020; van Kemenade, 2021). Nevertheless, there are limited studies which covers this topic from the Islamic perspective (i.e, Sarion, 2015; Mohamed, 2019; Mokhtar, 2019; Ishak, 2019; Mohamed, 2021). This research will investigate on the MS1900:2014, a Shariah-based Quality Management System which is established in Malaysia. This standard was developed based on ISO 9001, an international practice standard. This standard requires organization to have a comprehensive quality management system in order to accommodate the customer needs, to fulfill the requirement of a quality product/service, to enhance the effectiveness and productivity as well as to reduce the operational costs. These requirements are value added from the ISO 9001 and are aligned to the shariah perspectives.

As stated by the Departments of Standard Malaysia (2005), the objectives of MS1900:2005 are (1) To implant the shariah in quality management system with emphasis on management through value, (2) To improve the effectiveness and efficiency through noble universal values in all levels of organization and (3) To upsurge the practice of shariah compliance and increase the confidence level among the Muslims and stakeholders. Nevertheless, the number of current recipients of MS1900:2014 is still very small compared to the large number of business establishments including Cooperatives in Malaysia. Therefore, this study will be sought to understand of how business organizations, in particular Cooperatives could strengthen their business growth through the implementation of the MS1900:2014. This is also in-line with the National Entrepreneurship Policy (2020-2030) which highlights the importance of Cooperatives as one of the important component to create a holistic and conducive entrepreneurial ecosystem for sustainable economic development. The research question for this study encapsulates on how business organizations, in particular Cooperatives could achieve business growth through the implementation of the Shariah-based Quality Management Standard MS1900:2014.

The study's objectives are: i) to identify issues with quality management system in Cooperatives, ii) To investigate on how cooperatives could strengthen business growth through the implementation of the MS1900:2014, and iii) To recommend the policy maker of how to promote and encourage more organizations in being accredited with MS1900:2014 as one way to grow their business in order to achieve competitive advantage in the marketplace.

2. Literature review

2.1 Quality Management System

The development of quality management system has internationally established for business improvement since 1980's although the origins can be traced back to 1949, when the Japanese formed a committee to improve their productivity and quality of life (Powell, 1995). Organizations have sought TQM to refine their business performance (Robin & Kehoe, 1994; Kannan & Tan, 2005). As noted by Robin and Kehoe (1994), the quality improvement activities, particularly TQM have beneficial effects on business performance. This is supported by an empirical investigation of TQM effects on corporate performance by Easton

and Jarrell (1998). The findings indicated that performance, measured by both accounting variables and stock returns, was improved for the firms who adopted TQM. In addition, a study was conducted in five Danish libraries and it was found that an integrated measurement and management system have improved the customers' satisfaction and loyalty (Martensen & Gronholdt, 2003). TQM has also been practiced in SMEs (Ghobadian & Gallea, 1996) and reviewed as a competitive advantage of a company (Powell, 1995). A limited number of studies have researched upon Cooperatives on implementing quality management system (e.g. Trehan & Kapoor, 2011; Arda, Murwaningsari & Gunawan, 2021; Menza & Rugami, 2021) in their business management. For example, Arda, Murwaningsari and Gunawan (2021) have developed a quality measurement for Cooperative governance realising the importance of Cooperatives as one of the solid pillars of the nation's economy.

2.2 MS1900:2014

Quality management system has been established in Malaysia as one of the Government's agenda to provide a respectable public service. Along the way, many programs have been introduced such as Total Quality Management (TQM), Quality Control Circle (QCC), Quality Assurance Unit, Strategic Management and Customer Charter. Since 1996, ISO 9000 has established in public service in Malaysia (Siddiquee, 2006). Malaysia also practices ISO 9001 which covers the public and private service introduced by the International Organization Standardization (ISO Geneva). As a Muslim-majority country, Malaysia is heading further by introducing and implementing the MS1900:2005, a Quality Management System from shariah perspective (Che Pa et al., 2010). This standard was developed based on ISO 9001, an international practice standard. This standard requires organization to have a comprehensive quality management system in order to accommodate the customer needs, to fulfill the requirement of a quality product/service, to enhance the effectiveness and productivity as well as to reduce the operational costs. These requirements are value added from the ISO 9001 and are aligned to the shariah perspectives. As stated by the Departments of Standard Malaysia (2005), the objectives of MS1900:2005 are (1) To implant the shariah in quality management system with emphasis on management through value, (2) To improve the effectiveness and efficiency through noble universal values in all levels of organization and (3) To upsurge the practice of shariah compliance and increase the confidence level among the Muslims and stakeholders.

The value of MS 1900:2005 (amended in 2014 as MS1900:2014) is universal and although its compliance is from the Islamic perspective, its universal value can be accepted by all including the non-Muslims like improving work quality and performance, proper and timely delivery. All of these are not in conflict with universal values and general features of the other religions (Bernama, 2008). The introduction of this shariah standard has opened the eyes of business operators of getting the accreditation. Currently there are around 40 organisations that have been accredited with MS1900:2014. Out of this, none of them is a Cooperative.

2.3 Business Growth

In the Theory of the Growth of the Firm, Penrose (2009; originally published in 1959) has addressed the questions of: 1) why do some firms perform better than others?; and, 2) what enables a firm to grow and take advantage of its opportunities? Penrose examined managerial activities and decisions, organisational routines and knowledge creation within the company

and argued that they are critical if a firm set out to grow. This book contributes to the theory of the firm and development of understanding of business strategy. A comprehensive theory of the growth of the firm must explain several qualitatively different kinds of growth and must take account not only the sequence of changes created by a firm's own activities but also the effect of changes that are external to the firm and lie beyond its control (Penrose, 2009, p.4).

Penrose argued that a firm's growth, both internally and then externally through merger, acquisition and diversification, is due to the manner in which its resources are employed. She began by arguing that a firm consists of "a collection of productive resources" (Penrose, 2009, p.21) and continued by suggesting that these resources may only contribute to a firm's competitive position to the extent that they are exploited in such a manner that their potentially valuable services are made available to the firm (Newbert, 2007).

Pitelis (2005) expounded on Penrose's theory by examining her thinking on economics and business strategy. From his point of view, "Penrose focused on the 'insides' of organizations, to explain endogenous knowledge – creation, innovation and firm growth, saw the external environment as an 'image' in the minds of management, and posited a dynamic interaction between the internal and external environments, which defined what she called firms 'productive opportunity'" (Pitelis, 2005, p.67). Furthermore, Pitelis (2005) believed that Penrose's work was unique because her analysis not only focused on firms as real life organisations but also concentrated on human resources, on intra-firm learning, and on endogenous knowledge, innovation and growth. The interaction of exogenous and endogenous phenomena includes psychological factors that determine managerial motivations and a firm's growth.

Therefore, this research attempts to understand how business organizations, in particular, Cooperatives could strengthen business growth by the implementation of the MS1900:2014. This is also in-line with the National Entrepreneurship Policy (2020-2030) which highlights the importance of Cooperatives as one of the important components to create a holistic and conducive entrepreneurial ecosystem for sustainable economic development of the country.

3. Research methodology

The research design for the research is to incorporate an interpretative qualitative case study in which the data were collected through in-depth interviews with eight selected Cooperatives from Top 100 Cooperatives in 2021. In addition, a principal auditor from the standard body which is SIRIM was approached to gain further information related to the MS1900:2014 quality management standard. Results of each interview were transcribed immediately after each interview session. Data from the interviews were analysed using the five-phased cycle, namely: (1) compiling, (2) disassembling, (3) reassembling (and arraying), (4) interpreting, and (5) concluding as proposed by Yin (2011).

4. Discussion and Conclusion

The findings in this study indicate that the main issue with quality management system in Cooperatives is human resource competency. Trainings and staff development need to be highlighted for cooperative success growth. It can be interpreted that cooperatives could strengthen business growth through the implementation of the quality management system as studied by Sungkawati (2020). Result of the interviews showed that the successful

application of quality management system in Cooperatives was more dominated by the systematic operation of the cooperative mainly by the Cooperative's Guideline, Rules and By-laws as regulated by the Malaysia Co-operative Societies Commission. Most of the cooperatives have internal control system for example standard operating procedure (SOP) which led to the systematic operation. However, one of the cooperatives have stepped further by getting the certification of Malaysian Standard Palm-Oil (MSPO) which related to the core operation of the Cooperative. In relation to the application of the MS1900:2014, most of the cooperatives have little knowledge on this shariah standard although their existing values are showing the shariah practices. Hence, it is not surprised that most of the cooperatives responded that they are yet to apply for the MS1900:2014 since they were prioritizing their internal system.

On the other perspective, based on the interview conducted with the Principal Auditor and Team Specialist from SIRIM, currently there is no Cooperative has applied for the MS1900:2014 whilst the standard is generic and could be applied to any organizations. This might be due to existing Cooperative's Guideline, Rules and By-laws which have been outlined by the Malaysia Co-operative Societies Commission.

The result of this study can be concluded that the MS1900:2014 is a tool for Cooperative to grow further. It is also recommended and highlighted by SIRIM to promote and encourage Cooperative in being accredited with MS1900:2014 as one way to grow their business in order to achieve competitive advantage in the marketplace.

5. Acknowledgments

This research was funded by Universiti Sains Islam Malaysia (USIM) under the USIM Research Grant (PPPI/FEM/0122/USIM/11922).

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